

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2013

Prepared by:
City of Falls Church, Virginia
Finance Department

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INTRODUCTORY SECTION

CITY OF FALLS CHURCH, VIRGINIA

CITY COUNCIL

Nader Baroukh, Mayor
David E. Snyder, Vice Mayor

Johannah Barry
Ira Kaylin
David Tarter

Phil Duncan
Ronald Peppe

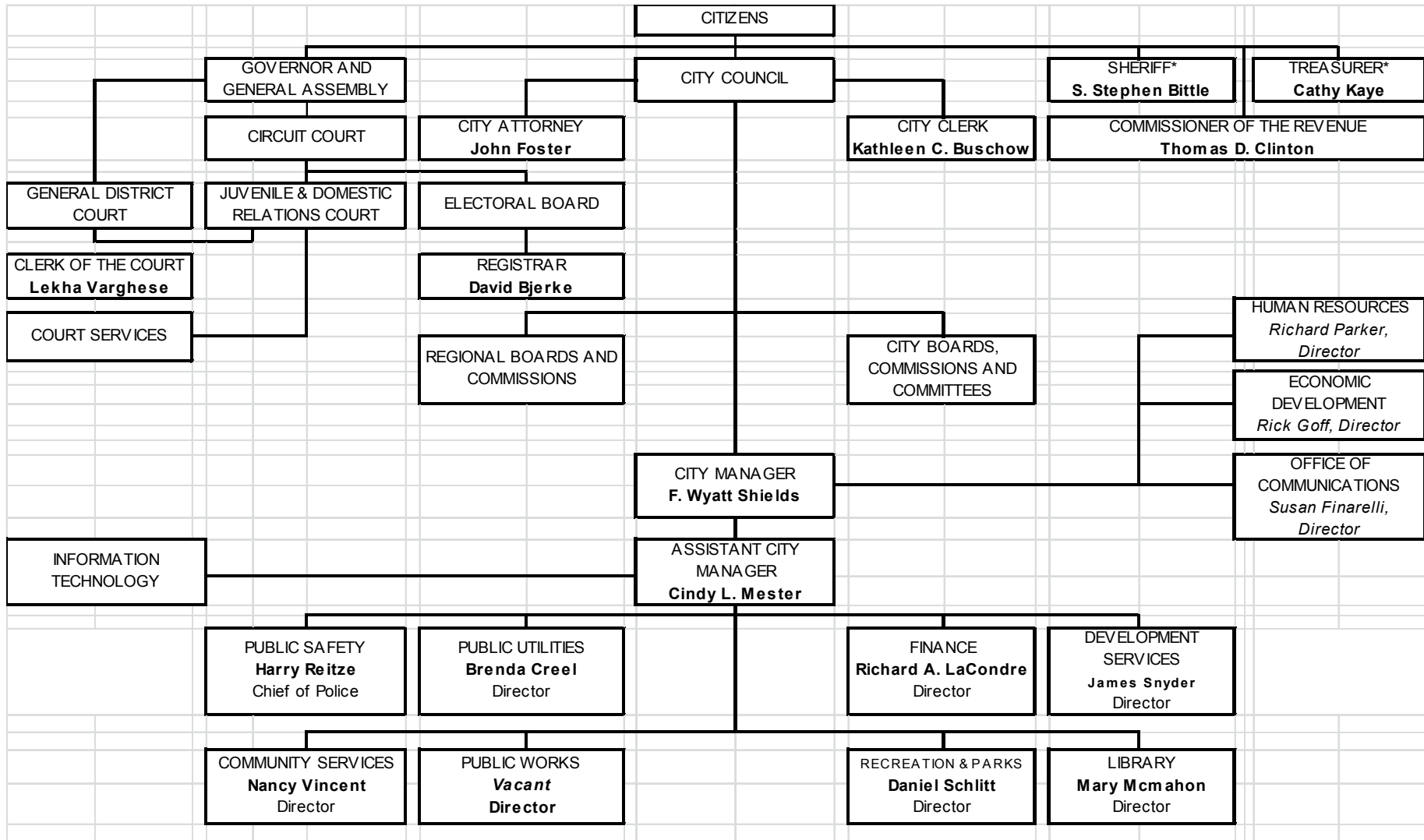
OFFICIALS

F. Wyatt Shields, City Manager
Cindy L. Mester, Assistant City Manager
Richard A. LaCondre, Chief Financial Officer
John Foster, City Attorney
Kathleen C. Buschow, City Clerk
Catherine Kaye, City Treasurer
Thomas D. Clinton, Commissioner of Revenue
S. Stephen Bittle, Sheriff
Toni Jones, Superintendent of Schools

CITY OF FALLS CHURCH, VIRGINIA

ORGANIZATIONAL CHART

As of JUNE 30, 2013





CITY OF FALLS CHURCH

November 5, 2013

City Council
City of Falls Church
Mayor and Members of the Council

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Falls Church, Virginia (the City) for the fiscal year ended June 30, 2013, in accordance with the *Code of Virginia*. The financial statements included in this report conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

The letter of transmittal is traditionally addressed to the governing or legislative body. We believe that the CAFR should be management's report to constituents, oversight bodies, resource providers, investors and creditors. This letter is addressed to you and by wide circulation it is also directed to the citizens of the City of Falls Church and all other interested readers. In addition to complying with legal requirements, this letter, management's discussion and analysis (MD&A), the financial statements, supplemental data, and the statistical tables have been prepared to provide full financial disclosure.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Brown, Edwards and Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2013 are free of material misstatement. The independent auditor's report is presented as the first component of the financial section of this report.

Our CAFR is divided into three sections: introductory, financial and statistical. The introductory section includes this letter of transmittal, a list of the City's principal elected and appointed officials, and the organizational chart. The financial section includes the Independent Auditors' Report, MD&A, Basic Financial Statements, including the notes, and Required Supplementary Information. In addition, the financial section contains other supplemental data, consisting of combining, individual fund, and component unit financial statements and schedules. The statistical section contains selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Report, which is required for federal grant recipients, is issued separately.

All the financial activities of the reporting entity are included within this report. As used here, the reporting entity comprises the primary government (City of Falls Church as legally defined) and its component units. Under GASB pronouncements, component units are legally separate entities for which the primary government is financially accountable. The component units of the City (the City of Falls Church Public School Board and the Falls Church Economic Development Authority) are discretely presented component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government.

GOVERNMENTAL STRUCTURE

The City is located in the northeastern corner of Virginia and encompasses an area of 2.2 square miles. The City is part of the Washington, D.C. metropolitan area, which includes jurisdictions in Maryland and Northern Virginia, and the District of Columbia.

The City is a municipal corporation incorporated as an independent city in 1948 under the laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government. The City Council (the Council) is comprised of seven members elected at-large for four-year staggered terms. Every two years the Council elects one member to serve as Mayor and one to serve as Vice-Mayor. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's manager, attorney and clerk. The Council appoints a City Manager to act as the administrative head of the City. The City Manager serves at the pleasure of the Council, carries out the policies established by the Council, and directs business and administrative procedures.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The City also provides water and sanitation services to its residents. In addition, it provides water to a portion of Fairfax County. The water and sewer functions are included as business-type activities in the City's financial statements. The City is financially accountable for the legally separate school system, which is reported as a component unit within the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the city operates.

The Local Marketplace

The City of Falls Church has benefited from an unprecedented wave of new development and investment that has occurred along several of its primary commercial corridors starting with the Broadway project in 2002. The Byron, the Spectrum, the Read Building, and Pearson Square followed the Broadway and its formula of higher-density, mixed-use development. Collectively these projects produce about \$5.2 million in gross revenue and \$2.5 million in net revenue for the city annually.

Commercial space in all five mixed use buildings is mostly filled or in transition to new uses and each of these buildings is at full residential occupancy. The Tax Analysts Building, a physically detached component of the Pearson Square project on South Maple Avenue, contains 85,000 square feet of office and retail space that is 95 percent occupied. It was the largest office building constructed in the city in 20 years when it was delivered to market in 2008. Tax Analysts, a nonprofit publisher of printed and online material, owns its headquarters building and is one of the city's largest employers.

Commercial space in the mostly residential Pearson Square building next door is anchored by Edward Jones Investments, Falls Church ArtSpace, and Stylish Patina, a newly opened home furnishings store. Body Dynamics, a physical therapy and wellness center, opened in 2012, and occupies much of the remaining space on the ground level of the building.

Slow to fill following construction in 2008, 32,000 square feet of commercial space in the Spectrum is now nearly fully occupied with businesses that include Moby Dick's House of Kabobs, Sweet Frog Frozen Yogurt, Beadazzled, and For Eyes. Mad Fox Brewery, a craft microbrewery and restaurant located in the Spectrum's largest retail space, is a popular regional draw and the highest tax revenue producing restaurant in the city. The Spectrum also contains 32,000 square feet of condo office, which is now more than 90 percent occupied, with the recent addition of a dental practice.

Office Trends

According to Delta Associates, "Northern Virginia's overall [office] vacancy rate is 15.8% at the end of the third quarter of 2013, unchanged from the quarter prior, but is up from 15.2% one year ago. The direct vacancy rate is 14.7% at September 2013, up from 14.5% at June 2013, and 13.9% one year ago."

Reports by major real estate research firms do not parse out the Falls Church City submarket, but in-house tracking of activity reflects incidental change only in the local market over the past 12 months. Falls Church City office market vacancy rates do not exceed overall levels in Northern Virginia at this time in our estimation. Inside the city, most available office space is located in older buildings, some of which is undergoing renovation or is impacted by site redevelopment plans.

Anecdotally in 2013, office property at 510 N. Washington Street was purchased by a proxy for Inova Health Systems as a mid-range real estate 'hold' and long-term health facility development opportunity. Properties at 500/501 Annandale Road were sold to Pulmonary and Medical Associates, one of Northern Virginia's largest medical practices, with 20,000 patients. The group moved to Falls Church from a location in Arlington and rehabilitated two buildings for their use and to sublease. Two professional sports care practices will be opening at 502 W. Broad Street and a primary care medical practice will lease space at 513 W. Broad. The city is clearly experiencing a trend in attracting additional medical practices and has always enjoyed a strong market for small professional office tenants.

The Flower Building, located in the 800 block of W. Broad Street, was completed in 2009 and is fully occupied with a mix of all-commercial uses. The 44,000-square-foot office and retail building houses the Falls Church U.S. Postal Service customer center, two restaurants, and multiple office tenants. This building is an example of infill development made possible by the spinoff effect of larger mixed-use projects that have created density, as well as greater consumer and office tenant interest throughout the city's commercial districts.

Regionally, there is currently the lowest supply of new office buildings in Northern Virginia in the last 19 years and 56% of the inventory of office buildings is more than 20 years old. There is a premium for quality new buildings inside the Beltway if financing can be obtained in a tight credit market. These were observations made by speakers at a regional economic forecast event held by the National Association of Industrial and Office Properties in early 2012 and remain valid market factors through the third quarter of 2013.

Looking ahead, Delta Associates says that, "The Northern Virginia office market will likely experience lukewarm conditions during the remainder of 2013 and into 2014, as light leasing activity and BRAC-related move-outs curtail overall market performance. We expect demand from the private sector to edge up over the next 24 months, as the economy slowly improves – encouraging companies to lease space as jobs are added. We expect vacancy to edge down during the next two years to 15.6%. The Northern Virginia office market remains a strong player in the intermediate and long-run due to capturing roughly half of the total jobs added to the Washington metro area economy each year."

Retail Trends

Occupancy rates in older properties are still holding strong for retail tenants in the city. As space occasionally becomes available it has quickly backfilled, and at higher rent. Restaurants have been the source of greatest demand for space in Falls Church. In the past several years Pizzeria Orso, Chipotle, Pisano's, Sfizi, Famous Dave's Barbeque, Honeybaked Ham, Mad Fox, Space Bar, Moby Dick's, Caribbean Plate, Curry Mantra 2, Subway, Dunkin' Donuts, four frozen yogurt shops, and others have opened, bolstering the city's meals tax revenue.

In 2012, California-based 24-Hour Fitness opened its second facility in the Washington, DC region in Falls Church. The company invested more than \$7 million to convert a former Syms store into a state-of-the-art fitness and training center. Falls Church Cross Fit backfilled empty light industrial space on the city's north side and Five Rings Fitness has opened on S. Washington Street. Dominion Jewelers has transitioned from tenant to owner/operator in a building recently completed on W. Broad Street that functions as its headquarters and store, with additional office space available for lease. The city is seeing some popular existing restaurants expand to offer outdoor and rooftop dining, with others planning to follow suit.

A two-story building at 101 Annandale Road, destroyed by fire in 2010, has been rebuilt and filled with a variety of new office, retail and restaurant tenants. Across the street, at 300 S. Washington, a blighted set of commercial buildings has been rehabilitated by a new owner, who has leased space to Smashburger, and other restaurant and commercial tenants.

Pipeline Projects

The Hekemian Company is completing construction of a \$51 million mixed-use project in the 400 block of North Washington Street. The "Northgate" is located within close proximity to the East Falls Church Metro Station and the developer will use that advantage to market 105 residential units, and 37,000 square feet of office and retail space, which is showing strong pre-leasing activity. Delivery of the Northgate is expected in the first quarter of 2014.

Construction has progressed rapidly for a 110-room Hilton Garden Inn in the 700 block of W. Broad Street. The \$18 million hotel was approved by the city in 2011 and is booking rooms for summer 2014. Next door, on the site of an operating Burger King, an application has been submitted by a developer to build a five-story assisted living facility for senior citizens. Easter Seals is completing a major renovation of a light industrial building on Hunton Avenue for a large day care facility for preschoolers, expected to open by the end of 2013. The project was financed with an Industrial Revenue Bond issued by the Falls Church Economic Development Authority.

Two major mixed-use projects were approved by the city in 2013. Rushmark Development Company will build a \$104 million mixed-use development featuring a Harris Teeter grocery store, 288 small apartments, and underground parking at 301 W. Broad Street. Lincoln Property Company has approval to build a \$77 million mixed-use project in the 500 block of S. Washington Street featuring 224 small apartments, 40,000 square feet of commercial space, including a Fresh Market grocery store, and underground parking. Both projects are expected to break ground in early 2014 with two-year construction horizons.

The owner of a small and aging office building at 400 N. Washington Street seeks to replace the existing structure with a \$28 million, 110,000-square-foot office and retail building with underground parking as soon as market conditions support the investment. The site is within easy walking distance of the East Falls Church Metro Station, where the new Silver Line will connect with the Orange Line in 2013. An application for the office project was filed with the city in 2012.

Post-recession years have brought intense activity from investors pursuing land assembly and higher density development opportunities in Falls Church. The multi-family residential market is very strong for new rental housing, especially smaller units targeted to young professionals as the Washington, DC area continues to add jobs and attract a workforce from outside the region. The city aggressively seeks to capture investment and new development with the right mix of uses to strengthen, broaden and balance its tax base.

The Eden Center

One of the most remarkable commercial success stories in Falls Church and, indeed, the metropolitan Washington region, is the Eden Center on Wilson Boulevard. The center is Northern Virginia's premier Asian shopping destination, with over 130 businesses. Its Vietnamese restaurants, eclectic array of shops, vendors and cultural events regularly draw chartered buses from surrounding states and Canada. Owners of the center have signed a lease with Good Fortune, a New York-based Asian grocery store, to occupy 43,000 square feet of space. The grocery should open in early 2014 and is expected to generate a high volume of sales, bringing increased tax revenue to the city.

The BJ's Success Story

BJ's Wholesale Club opened its 87,000-square-foot Falls Church store in fall 2010. It signed a 20-year lease on an eight-acre former light industrial site on Wilson Boulevard. This deal was facilitated by an agreement between the city and developer JBG Rosenfeld Retail to share a portion of taxes generated by the new store over a 12-year period. It was the second largest retail lease signed in the entire Washington, DC region in 2009. Sales performance through June 2013 has been closely followed and the Falls Church BJ's has proven consistent with initial revenue projections, now ranking second only to Giant grocery in sales tax revenue for the city.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department along with staff from the City Manager's office. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. In addition, we acknowledge the cooperation and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

We would like to give special recognition to Melissa Cabacar-Ryman, the City's Deputy Director of Finance.

This CAFR reflects our commitment to the citizens of Falls Church, the City Council, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

Respectfully submitted,



F. Wyatt Shields

City Manager



Richard A. LaCondre, MPA

Chief Financial Officer

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of City Council
City of Falls Church, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Sale of Water System

The City has agreed in principle to the sale of substantially all of its water system, reported in the water fund. The sale is subject to, among other things, approval through referendum by City residents. The possible impact to the City's financial statements is outlined in Note 19 and, if consummated, the sale is expected to result in a significant reduction in the portion of the City's net position dedicated to water utility.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplemental information as listed in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplemental information as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information as listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information (Continued)

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 4, 2013

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

This section of the City of Falls Church, Virginia's (the City) Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2013.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the basic financial statements and related notes, which are also contained in this CAFR.

FINANCIAL HIGHLIGHTS

HIGHLIGHTS FOR GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and accrual basis of accounting.

- The City's total net position (assets less liabilities) on a government-wide basis were \$165.5 million at June 30, 2013. Of this balance, \$162.8 million is the Primary Government's and \$2.7 million is the component units'.
- For fiscal year 2013, taxes and other revenues of the City's governmental activities amounted to \$72.3 million and expenses and transfers amounted to \$66.9 million, which resulted in an increase in net position for the City's governmental activities of \$5.3 million.
- Revenues of the City's business-type activities were \$32.3 million, and expenses were \$23.6 million, which resulted in an increase in net position for the City's business-type activities of approximately \$8.6 million.
- In November 2012, the City, Fairfax Water and Fairfax County, agreed in principle, to sell the City's water utility to Fairfax Water. The agreement is still subject to due diligence process and voter referendum by the City's citizens. Additional information regarding this sale is included in Note 19.

HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

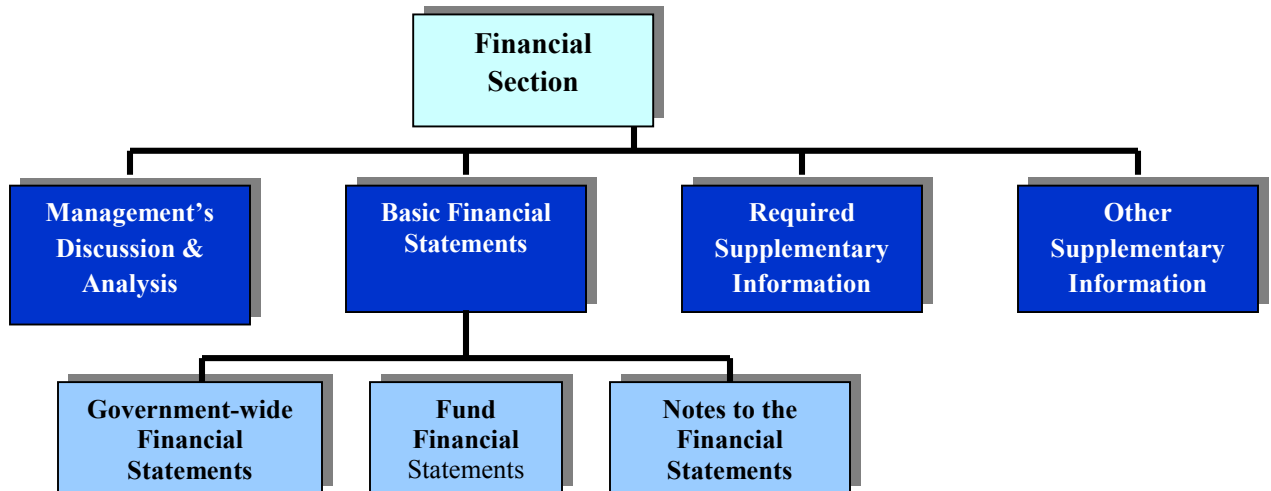
- The City's governmental funds reported expenditures and other financing uses in excess of revenues and other financing sources of \$2.6 million for the fiscal year due largely to capital expenditures of \$7.5 million.
- The City's General Fund reported a fund balance of \$17.3 million at June 30, 2013, an increase of \$2.4 million from June 30, 2012. The FY2013 budget had programmed a restoration of fund balance of \$1.1 million. The City's revenues for taxes came in at \$3.0 million higher than expected, in particular for business licenses, personal property and real estate taxes.
- The City's Capital Projects Fund reported a decrease in fund balance of \$5.0 million, resulting in a balance of \$2.9 million at June 30, 2013. This decrease is due mainly to the expenditure for expansion and renovation of the Thomas Jefferson Elementary School.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

- The City's Water fund reported an increase in net position of approximately \$7.8 million and the City's Sewer fund reported an increase of \$904 thousand in 2013. Contributing to the increase for the Water fund is the receipt of FY2013, the Water Fund received tap fees of \$3.9 million as well as developer contributions of capital assets valued at \$4.3 million. The Sewer fund continues to contribute to Arlington County and Fairfax County towards the upgrade of their sewer treatment plants to bring them in compliance with current EPA standards, as well as rehabilitate existing sewer mains. In FY2013, those contributions amounted to \$349 thousand and \$311 thousand to Arlington County and Fairfax County, respectively. The Arlington project is almost completed, while the Fairfax County project is still several years away from completion. The Sewer Fund also spent \$422 thousand towards the rehabilitation of sewer mains.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: (1) management's discussion and analysis (MD&A) presented here, (2) basic financial statements and related notes, (3) required supplementary information (RSI), and (4) other supplementary information.



The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The government-wide financial statements provide both long and short-term information about the City's overall financial position. The fund financial statements focus on the individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the retirement systems. In addition to these required elements, the City includes other supplementary information such as combining and individual fund statements to provide details about the fiduciary funds, and component units.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private-sector businesses. In addition, they report the City's net assets and how they have changed during the fiscal year.

The first government-wide statement – the *Statement of Net Position* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement – the *Statement of Activities* – presents information showing how the City's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities – Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and cultural programs; and general administration. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Included in the governmental activities are the governmental funds.

Business-type Activities – The City's business-type activities (the Water and Sewer funds) are reported here.

Discretely Presented Component Units – The City includes two other entities in its financial reporting entity: City of Falls Church Public School Board (School Board), and the Falls Church Economic Development Authority (EDA). Although legally separate, these component units are important because the City is financially accountable for them.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds. Fund accounting is used to keep track of the specific sources of funding and spending for particular purposes, as well as ensure and demonstrate compliance with finance-related legal requirements. The City has the following three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. The other two governmental funds of the City are the capital projects fund and the affordable dwelling units fund. The capital projects fund is also considered a major governmental fund.

Proprietary Funds – Proprietary funds, which consist of two enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The City's enterprise funds, the Water and Sewer funds, are the City's business-type activities reported in the government-wide statements. The fund financial statements provide more detail and additional information, such as cash flows, for the Water and Sewer funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The City's fiduciary funds consist of post-retirement trust funds and agency funds. The post-retirement trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pension plans – the Basic Pension Plan and the Police Pension Plan – as well as other post-employment benefits, primarily health insurance and life insurance for City and School Board employees. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide financial information is included in this report.

STATEMENT OF NET POSITION

The following table presents a summary of the net position of the primary government as of June 30, 2013 and 2012:

Summary of Net Position				
As of June 30, 2013 and 2012				
(\$ In Thousands)				
	2013		2012	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities (As Restated*)
Assets:				
Current and other assets	\$ 58,589	\$ 49,096	\$ 60,027	\$ 43,468
Capital assets, net	66,501	99,240	61,677	97,052
Total assets	125,090	148,336	121,704	140,520
Liabilities:				
Other liabilities	36,210	4,842	34,997	4,141
Long-term liabilities	36,574	33,047	39,730	34,616
Total liabilities	72,784	37,890	74,727	38,757
Net Position:				
Invested in capital assets, net of related debt	39,249	75,121	31,282	71,450
Restricted for other projects	390	-	111	-
Unrestricted	12,667	35,325	15,584	30,167
Total net position	\$ 52,306	\$ 110,446	\$ 46,977	\$ 101,617
*This reflects a restatement in the Sewer Fund as of June 30, 2012. See Note 17.				

Despite the increase in net position, current and other assets for governmental activities decreased by \$1.4 million primarily due to investments made during FY2013 in capital assets, as can also be seen by the increase in net capital assets for governmental activities of \$4.8 million. The capital investments were mostly made to expand and renovate the Thomas Jefferson Elementary School. Current and other assets for business-type activities increased by \$5.6 million during FY2013 mainly as a result of receipts of tap fees that are designated for future expansion costs in the amount of \$3.8 million. Net capital assets increased by \$3.6 million largely as a result of capital contributions from developers as well as investments made in sewer main rehabilitation and upgrades at the Arlington County and Alexandria Sanitation Authority sewer plants, totaling \$5.7 million.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

The increase in other liabilities for governmental activities of \$1.1 million is mostly due to the liabilities accrued at the end of the fiscal year for ongoing construction activity at the Thomas Jefferson Elementary School. Long-term liabilities for governmental activities decreased by \$3.1 million and for business-type activities decreased by \$2.2 million mainly due to principal payments made on debts.

During FY2013, the net position invested in capital assets, net of related debt, increased for the City's governmental activities by \$8 million and increased for the business-type activities by \$3.6 million. The governmental activities' investment in capital investments increased mainly due to the expansion and renovation of the Thomas Jefferson Elementary School. The increase for the business-type activities is due to rehabilitation of the City's sewer systems, upgrades to treatment plants, and contributions of capital assets from developers.

Unrestricted net position decreased by \$2.9 million for governmental activities due mainly to the use of cash for capital projects in advance of debt issuance.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

STATEMENT OF ACTIVITIES

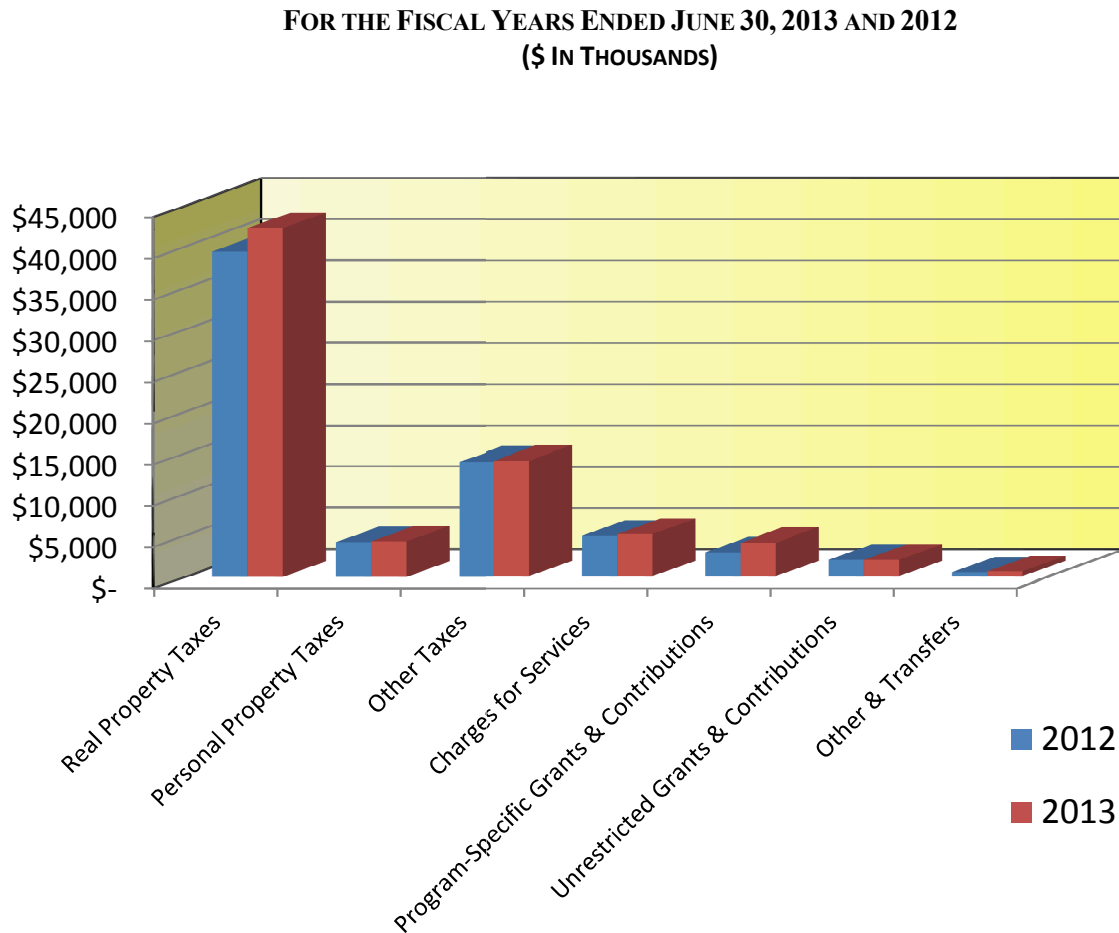
The following table summarizes the changes in net position for the primary government for the years ended June 30, 2013 and 2012:

Summary of Changes in Net Position				
For the Fiscal Years Ended June 30, 2013 and 2012				
(\$ In Thousands)				
	2013		2012	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities*
Revenues:				
Program revenues:				
Charges for services	\$ 5,095	\$ 27,676	\$ 4,903	\$ 25,843
Operating grants & contributions	3,471	-	2,134	-
Capital grants & contributions	570	4,256	808	1,497
General revenues:				
Real estate taxes	42,216	-	39,382	-
Personal property taxes	4,259	-	4,157	-
Business license taxes, based on gross receipts	3,375	-	3,260	-
Local sales & use taxes	3,737	-	3,899	-
Consumer's utility taxes	2,142	-	2,103	-
Motor vehicle decals	313	-	319	-
Recordation	602	-	475	-
Occupancy, tobacco, & other taxes	3,867	-	3,833	-
Unrestricted grants & contributions	2,021	-	2,021	-
Revenue from use of money and property	142	319	106	282
Other	279	59	230	74
Total revenues	72,089	32,310	67,630	27,696
Expenses:				
General government administration	5,368	-	4,789	-
Judicial administration	1,874	-	1,611	-
Public safety	9,788	-	9,434	-
Public works	6,286	22,358	5,337	21,094
Health and welfare	2,219	-	2,003	-
Education and payments to schools	32,035	-	29,064	-
Parks, recreation, and cultural	4,603	-	4,392	-
Community development	3,307	-	1,746	-
Economic development	314	-	323	-
Interest expense	1,117	1,119	1,279	1,065
Total expenses	66,911	23,477	59,978	22,159
Excess/(deficiency) before transfers	5,178	8,833	7,652	5,537
Transfers	150	(150)	150	(150)
Change in net position	5,328	8,683	7,802	5,387
Net position, beginning of year*	46,977	101,763	39,175	96,376
Net position, end of year	\$ 52,305	\$ 110,446	\$ 46,977	\$ 101,763
*This reflects restatement of the Sewer Fund as of June 30, 2012. See Note 17.				

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

Governmental Activities

Revenues and transfers for the City's governmental activities were \$72.3 million for fiscal year 2013 and \$67.6 million for fiscal year 2012. Sources of revenue for fiscal year 2013 and 2012 are comprised of the following items:

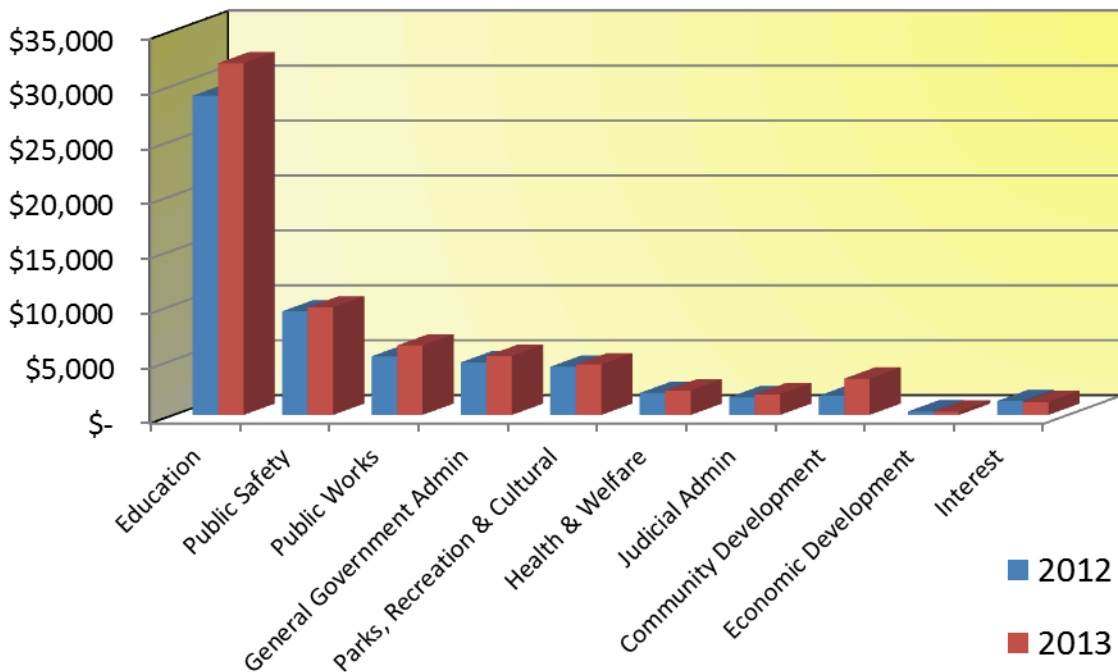


Taxes constitute the largest source of City revenues, amounting to \$60.5 million for fiscal year 2013 and \$57.4 million for fiscal year 2012. Real property taxes (\$42.2 million in fiscal year 2013 and \$39.4 million in fiscal year 2012) represent approximately 70% of tax revenues in FY2013 and FY2012.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

The cost of all governmental activities in fiscal year 2013 was \$66.9 million, and in fiscal year 2012 was \$60.0 million. The increase of over 11% in FY2013 over FY2012 is largely due to increases in spending for education as a result of higher student population and replacement of obsolete technology materials, and a grant from the Commonwealth of Virginia used towards the City’s obligation for Washington Metropolitan Transit Authority (WMATA). Education was the City’s largest program and highest priority in both fiscal years 2013 and 2012; education expenses totaled \$32.0 million in fiscal year 2013 and \$29.0 million in fiscal year 2012. Public safety expenses represent the second largest expense in both fiscal years, totaling \$9.8 million in fiscal year 2013 and \$9.4 million in fiscal year 2012. Public works expenses totaled \$6.3 million for fiscal year 2013 and \$5.3 million for 2012, representing the third largest expense for the City in both fiscal years.

**FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(\$ IN THOUSANDS)**



CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

The following table presents the cost of each of the City's six largest programs – education, public safety, public works, general government administration, health and welfare, and parks, recreation and cultural - as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of City's Governmental Activities				
For the Fiscal Years Ended June 30, 2013 and 2012				
(\$ In Thousands)				
	2013		2012	
Functions/Programs	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 32,035	\$ 31,788	\$ 29,064	\$ 29,064
Public safety	9,788	8,247	9,434	7,896
Public works	6,286	4,223	5,337	3,131
General government administration	5,368	4,995	4,789	4,349
Parks, recreation, and cultural	4,603	2,526	4,392	2,412
Community development	3,307	2,027	1,746	1,601
Health and welfare	2,219	1,957	2,003	1,874
Other	3,305	2,013	3,212	1,805
Total	\$ 66,911	\$ 57,776	\$ 59,977	\$ 52,132

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$5.1 million in 2013 and \$4.9 million in 2012) and other governments and organizations that subsidized certain programs with grants and contributions (\$4.0 million in 2013 and \$2.7 million in 2012). The remaining net cost services of the \$59.2 million 2013 and \$52.1 million in 2012 was subsidized by the taxpayers.

The net cost for education and payment to schools is the same as its total cost for the City. Other costs for education as well as program-specific revenues are reported in the component unit School Board.

Business-type Activities

The Water Fund recovers its costs primarily through user charges. The Water Fund reported an increase in net position of \$7.8 million for fiscal year 2013 and an increase of \$5.2 million for fiscal year 2012. In fiscal year 2013, total revenues and capital contributions of the Water Fund were \$28.8 million and total costs were \$21.0 million. In fiscal year 2012, total revenues and capital contributions were \$24.6 million and total costs and transfers were \$19.1 million. Capital contributions in fiscal year 2013 were \$4.3 million and in fiscal year 2012 were \$1.5 million. There was a decrease of \$400 thousand in charges for services primarily due to reduction in connections for single-family residential dwellings. However, there was an increase in connections for commercial and multi-family dwellings, which resulted in an increase of \$1.8 million in availability fees. Commercial and multi-family dwelling connections are generally performed by the developer itself so the City does not receive connection fees for those, only availability fees.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

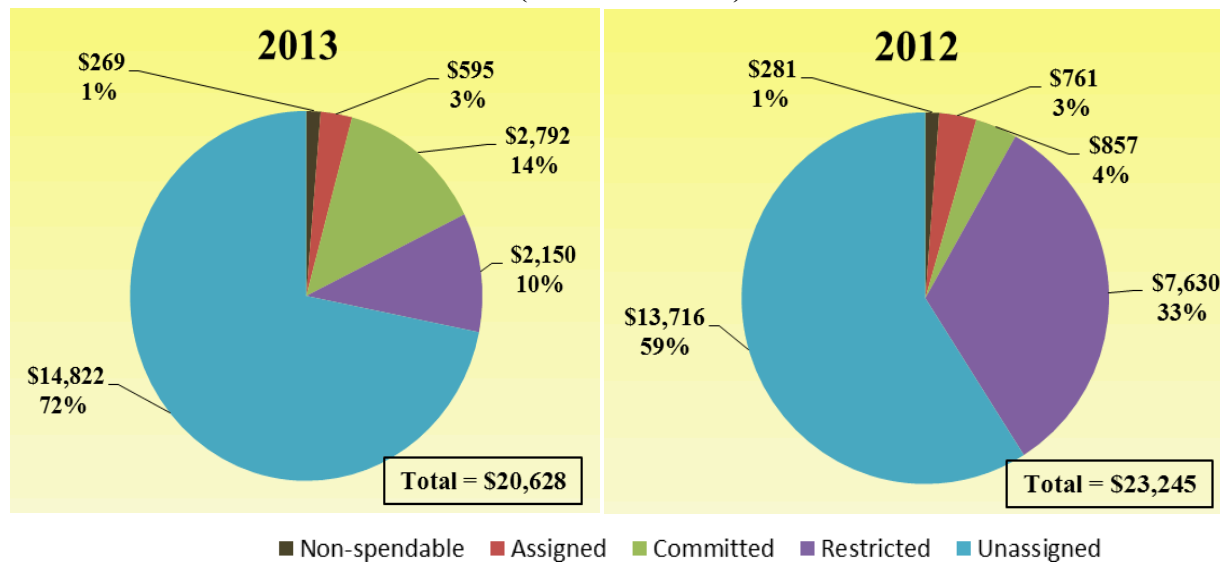
The Sewer Fund reported an increase in net position of \$904 thousand for fiscal year 2013 and an increase of \$161 thousand for fiscal year 2012. In fiscal year 2013, total revenues of the Sewer Fund were \$3.5 million as compared to total costs and transfers of \$2.5 million. In fiscal year 2012, total revenues of the Sewer Fund were \$3.1 million and total costs and transfers were \$2.9 million. The Sewer Fund recovers its costs primarily through user charges. The consumption rate for the sewer services were increased by 9% in FY2013 contributing to the increase in revenues.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following chart represents the components of City's governmental fund balances as of June 30, 2013 and 2012.

**GOVERNMENTAL FUNDS – FUND BALANCES
AS OF JUNE 30, 2013 AND 2012
(\$ IN THOUSANDS)**



Overall, the fund balance for all governmental funds decreased by approximately \$2.6 million in FY2013 and increased by \$13.8 million in FY2012. In FY2013, total revenues and other financing sources were \$72.4 million and total expenditures and other financing uses were \$75.0 million. Total revenues and other financing sources were \$93.0 million in FY2012 and expenditures and other financing uses were \$79.2 million. Included in FY2012 other financing source was debt issuance of \$24.1 million and in other financing use was \$17.4 million in refunding of debt.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

The non-spendable fund balance includes amounts that are not available for spending such as inventory and prepaid expenses. Committed fund balance represents amounts committed by the City Council to capital projects (\$518 thousand in FY2013 and \$450 thousand in FY2012), storm-water program (\$900 thousand in FY2013, \$0 in FY2012) and to affordable housing (\$407 thousand in FY2013 and \$406 thousand in FY2012). Assigned fund balance represents amounts that were encumbered for various expenditures other than capital projects. Restricted fund balance represents grants and bond proceeds which have not yet been spent for their specified purpose.

The unassigned fund balance represents resources that are available for appropriation.

The City has three governmental funds: (1) the General Fund, (2) the Capital Projects Fund, and (3) the Affordable Dwelling Units Fund.

The General Fund is the main operating fund of the City. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). The Affordable Dwelling Units Fund accounts for the City's planned investments in affordable housing.

The City Council adopted a target range of 12%-17% of General Fund expenditures for unassigned General Fund fund balance, with a requirement to meet the 12% minimum balance within 2 years of falling below it, and to meet the 17% balance within 3 additional years. The City's unassigned fund balance dipped below 8% in FY2009 due to shortfall in revenues. In FY2010, the City experienced another shortfall in revenues and also was required to return FY2009 management fee to the Water Fund, causing the fund balance ratio to drop even further. To address the restoration of its fund balance, the City transferred \$4.7 million to the General Fund from the Capital Projects Funds in FY2010. In FY2011, FY2012 and FY2013, the City Council adopted a budget that included \$1.3 million, \$2.3 million, and \$1.1 million, respectively, to restore the unassigned fund balance. Increased economic activity during FY2011 and FY2012 also added to the City's unassigned fund balance. The ending General Fund unassigned fund balance as of June 30, 2013 of \$14.8 million was 22.0% of expenditures.

The negative unassigned fund balance in the Capital Projects Fund is due to expenditures for capital projects in advance of bond issuance. The City is planning on issuing the bonds in December 2013 to reimburse itself for these payments.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

The following shows the fund balances of these funds as of June 30, 2013 and 2012:

Fund Balances - Governmental Funds								
As of June 30, 2013 and 2012								
(\$ In Thousands)								
	General Fund		Capital Projects Fund		Affordable Dwelling Unit Fund		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Non-spendable	\$ 269	\$ 281	\$ -	\$ -	\$ -	\$ -	\$ 269	\$ 281
Restricted	160	111	1,885	7,355	105	164	2,150	7,630
Committed	1,418	0	967	450	407	407	2,792	857
Assigned	595	761	-	-	-	-	595	761
Unassigned	14,822	13,716	-	-	-	-	14,822	13,716
Total	\$ 17,264	\$ 14,869	\$ 2,852	\$ 7,805	\$ 512	\$ 571	\$ 20,628	\$ 23,245

The following shows the changes in the individual fund balances for fiscal years 2013 and 2012:

Changes in Fund Balances - Governmental Funds								
For the Fiscal Years Ended June 30, 2013 and 2012								
(\$ In Thousands)								
	General Fund		Capital Projects Fund		Affordable Dwelling Unit Fund		Total*	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues and other financing sources	\$ 71,872	\$ 85,204	\$ 2,580	\$ 8,007	\$ 1	\$ 31	\$ 72,420	\$ 93,042
Expenditures and other financing uses	69,478	78,256	7,533	1,198	59	-	75,037	79,254
Changes in Fund Balances	2,394	6,948	(4,953)	6,809	(58)	31	(2,617)	13,788
Fund balance at beginning of year	14,869	7,921	7,805	996	571	540	23,245	9,457
Fund balance at end of year	<u>\$ 17,263</u>	<u>\$ 14,869</u>	<u>\$ 2,852</u>	<u>\$ 7,805</u>	<u>\$ 513</u>	<u>\$ 571</u>	<u>\$ 20,628</u>	<u>\$ 23,245</u>
*Transfers between funds have been eliminated in the Total columns.								

The City's enterprise funds provide the same type of information found in the government-wide financial statements, as the basis of accounting is the same. Factors concerning finances of the Water and Sewer funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and other financing uses, exceeded the original budget by \$3.5 million or 5.3%. The increases were due to various reasons including the carryover of funds for projects that were not started or completed during FY2012 and additional grants awarded to the City during the year.

The final amended budget revenues and other financing sources were more than the original budget by \$1.2 million or 2%. The change is mostly due to additional grants awarded to the City.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

Actual revenues and other financing sources were more than final budget amounts by \$3.1 million or 4.5%, and actual expenditures and other financing uses were \$2.4 million or 3.5% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2013, include the following:

- Actual total tax revenues were more than budgeted amounts by \$3.2 million. The differences are in several different tax revenues – in real estate, personal property, sales, meals, business licenses and bank stock taxes.
- Actual departmental expenditures were less than budgeted amounts by \$2.4 million. Public Works was below budget by \$612 thousand primarily due to some projects that were not completed and are being carried forward as encumbrances into FY2013, as well as some grants that were not fully expended. General Government was also below budget by \$908 thousand mainly due to under-spending in legal fees wherein a settlement was reached. In total, for the General Fund, approximately \$595 thousand in un-liquidated encumbrances are being carried forward into FY2014.

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2013 and 2012, amounted to approximately \$158.7 million and \$157.9 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

Capital Assets						
As of June 30, 2013 and 2012						
(\$ In Thousands)						
	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	\$ 8,424	\$ 2,595	\$ 11,019	\$ 8,424	\$ 2,595	\$ 11,019
Construction in progress	7,168	4,406	11,574	819	4,896	5,715
Buildings and system	63,328	109,576	172,904	63,270	104,751	168,021
Improvements other than buildings	4,854	74	4,928	4,817	74	4,891
Machinery and equipment	11,570	4,073	15,643	11,236	4,049	15,285
Purchased capacity	-	38,593	38,593	-	37,095	37,095
Intangibles	1,533	47	1,580	1,479	47	1,526
Infrastructure	10,057	-	10,057	10,047	-	10,047
Library collections	2,058	-	2,058	1,987	-	1,987
Accumulated depreciation	(42,491)	(60,124)	(102,615)	(40,402)	(56,455)	(96,857)
Total Capital Assets, Net	\$ 66,501	\$ 99,240	\$ 165,741	\$ 61,677	\$ 97,052	\$ 158,729

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

This year's major capital asset events included the following:

- The City is expanding and renovating the Thomas Jefferson Elementary School for a total budget of approximately \$10 million. As of June 30, 2013, approximately \$8.8 million has been spent on this project.

See Note 8 in the notes to the financial statements for additional information pertaining to the city's capital assets.

LONG-TERM DEBT

The City maintains the following ratings related to tax-exempt securities; Aa1 from Moody's Investor Services, AA from Standard and Poor's Corporation and AAA from Fitch Ratings.

The City's legal limit for outstanding debt is 10% of taxable assessed real property within the City, which is \$3.3 billion in 2013 and 2012. The City's total long-term debt that is applicable to this limit was \$64.0 million as of June 30, 2013 and \$68.5 million as of June 30, 2012, and are well within the limits set by the Constitution of the Commonwealth of Virginia.

The City Council has adopted a policy that sets a limit for outstanding General Fund supported debt at 5% of total taxable assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund expenditures. As of June 30, 2013 and 2012, total debt outstanding was 1.0% and 1.2%, respectively, of taxable assessed value of real property. General Fund debt service payments were 6.4% and 6.7% of General Fund expenditures in FY2013 and FY2012, respectively. Both ratios are below the City's debt limit policy of 12% of General Fund expenditures.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

The following table shows a summary of the City's outstanding debt as of June 30, 2013 and 2012:

Outstanding Long-Term Debts						
As of June 30, 2013 and 2012						
(\$ In Thousands)						
	2013			2012		
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General obligation bonds issued for:						
Schools	\$ 27,977	\$ -	\$ 27,977	\$ 30,457	\$ -	\$ 30,457
Community center	1,481	-	1,481	1,613	-	1,613
Fire station	2,139	-	2,139	2,330	-	2,330
City hall	1,263	-	1,263	1,300	-	1,300
Open space	365	-	365	307	-	307
Other	1,260	-	1,260	1,633	-	1,633
Water system improvements	-	16,385	16,385	-	17,235	17,235
Sewer system improvements	-	6,659	6,659	-	6,668	6,668
Revenue bonds issued for:						
Sewer system improvements	-	2,404	2,404	-	2,483	2,483
Note payable issued for:						
Water system improvements	-	3,354	3,354	-	3,701	3,701
Sewer system improvements	-	3,081	3,081	-	3,278	3,278
Capital leases and other	2,089	1,164	3,253	457	1,226	1,683
Total	\$ 36,574	\$ 33,047	\$ 69,621	\$ 38,097	\$ 34,591	\$ 72,688

See Note 10 in the notes to the financial statements for additional information relative to the City's long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund adopted budget for the fiscal year 2014:

- The percentage change in real property taxes for fiscal year 2014 is projected to be an increase of 6.2% over the FY2013 budget.

Per the fiscal year 2014 adopted budget, revenues are \$75.6 million, a 9.0% increase over the fiscal year 2013 level of \$69.3 million. Revenue from real property taxes will make up 58.1% of total revenues, as compared to 59.6% in fiscal year 2013. Other taxes account for 24.1% of General Fund revenue in 2014, slightly less than 24.6% in 2013.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

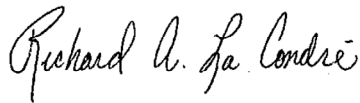
In FY2014, there is an increase in basic plan and police plan required contribution to 18.94% and 33.25% of covered payroll, respectively, as compared to 16.86% and 30.78% in FY2013. Both years include employee contributions of 5.0% and 7.0% for the basic plan and police plan. In September 2011, the City Council passed a resolution changing plan benefits effective for employees hired on or after January 1, 2012. Additional information regarding this change can be found on Note 13. Contributions to the Virginia Retirement System, which covers Constitutional Officers and the majority of School Division employees, are subject to action by the General Assembly. These contributions are expected to increase over the next several years, however the exact amounts are not known at this time.

Pressures on the City budget due to the uncertainties of the economy and the necessary expenditures required to maintain a safe community will continue to be a challenge.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

Respectfully submitted,



Richard A. LaCondre, MPA

General Manager, Chief Financial Officer

BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2013

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
ASSETS					
Cash and investments (Note 4)	\$ 19,078,941	\$ 32,386,221	\$ 51,465,162	\$ 3,492,726	\$ 119,236
Receivables, net (Note 5)	28,183,219	6,021,001	34,204,220	30,906	-
Internal balances (Note 7)	1,359,488	(1,359,488)	-	-	-
Due from fiduciary funds	-	-	-	131,340	-
Due from primary government	-	-	-	3,116,144	250,000
Due from other governments (Note 6)	1,314,976	185,641	1,500,617	358,878	-
Prepays	50,239	5,097	55,336	143,568	-
Inventories	218,380	409,458	627,838	-	-
Restricted cash and cash equivalents (Note 4)	7,493,465	9,440,109	16,933,574	-	-
Deferred OPEB charges (Note 14)	560,000	379,000	939,000	859,000	-
Bond issue costs, net	330,221	269,511	599,732	-	-
Capital assets: (Note 8)					
Nondepreciable	15,591,601	7,000,600	22,592,201	1,273,354	517,255
Depreciable, net	50,909,523	92,239,140	143,148,663	2,693,675	-
Total assets	125,090,053	146,976,290	272,066,343	12,099,591	886,491
LIABILITIES					
Accounts payable and other liabilities	3,992,619	2,630,984	6,623,603	5,278,689	250,000
Accrued interest	415,702	305,313	721,015	-	-
Unearned revenue (Note 9)	26,372,568	72,588	26,445,156	-	-
Customer deposits	1,257,098	473,815	1,730,913	-	-
Due to component unit	3,366,144	-	3,366,144	-	-
Due to fiduciary funds	806,383	-	806,383	-	-
Noncurrent liabilities:					
Deferred rent	-	20,249	20,249	128,109	-
Due within one year (Note 10)	4,469,735	2,372,432	6,842,167	740,738	-
Due in more than one year (Note 10)	32,103,906	30,654,677	62,758,583	3,876,946	-
Total liabilities	72,784,155	36,530,058	109,314,213	10,024,482	250,000
NET POSITION					
Net investment in capital assets	39,248,950	75,135,994	114,384,944	3,879,807	517,255
Restricted for:					
Grants	159,715	-	159,715	-	-
Capital projects	1,884,972	-	1,884,972	-	-
Affordable housing	105,187	-	105,187	-	-
Unrestricted	10,907,074	35,310,238	46,217,312	(1,804,698)	119,236
Total net position	\$ 52,305,898	\$ 110,446,232	\$ 162,752,130	\$ 2,075,109	\$ 636,491

The Notes to Financial Statements are
an integral part of this statement.

EXHIBIT 2

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 5,367,731	\$ 176,494	\$ 196,313	\$ -	\$ (4,994,924)		\$ (4,994,924)		
Judicial administration	1,873,922	990,687	300,447	-	(582,788)		(582,788)		
Public safety	9,788,047	1,158,033	362,590	20,890	(8,246,534)		(8,246,534)		
Public works	6,285,870	706,097	1,085,941	271,163	(4,222,669)		(4,222,669)		
Health and welfare	2,218,700	5,705	255,566	-	(1,957,429)		(1,957,429)		
Parks, recreation, and cultural	4,603,123	1,895,540	181,709	-	(2,525,874)		(2,525,874)		
Community development	3,307,046	162,005	1,088,086	30,405	(2,026,550)		(2,026,550)		
Economic development	314,171	-	-	-	(314,171)		(314,171)		
Education	32,035,481	-	-	247,190	(31,788,291)		(31,788,291)		
Interest	1,116,712	-	-	-	(1,116,712)		(1,116,712)		
Total governmental activities	66,910,803	5,094,561	3,470,652	569,648	(57,775,942)		(57,775,942)		
Business-type activities:									
Water	20,930,432	24,363,306	-	4,251,454		\$ 7,684,328	7,684,328	-	-
Sewer	2,546,447	3,312,868	-	4,039		770,460	770,460	-	-
Total business-type activities	23,476,879	27,676,174	-	4,255,493		8,454,788	8,454,788	-	-
Total primary government	\$ 90,387,682	\$ 32,770,735	\$ 3,470,652	\$ 4,825,141	(57,775,942)	8,454,788	(49,321,154)	-	-
Discretely Presented Component Units:									
School Board	\$ 39,382,428	\$ 1,967,541	\$ 5,913,050	\$ -				\$ (31,501,837)	\$ -
Economic Development Authority	25,442	-	-	-				-	(25,442)
Total component units	\$ 39,407,870	\$ 1,967,541	\$ 5,913,050	\$ -				(31,501,837)	(25,442)
General revenues:									
General property taxes					46,474,852	-	46,474,852	-	-
Other local taxes:									
Business licenses					3,374,891	-	3,374,891	-	-
Local sales and use					3,737,117	-	3,737,117	-	-
Consumer utility					2,142,459	-	2,142,459	-	-
Motor vehicle decals					313,245	-	313,245	-	-
Real estate recordation taxes					602,651	-	602,651	-	-
Occupancy, tobacco, and other					3,867,148	-	3,867,148	-	-
Payments from City					-	-	-	30,760,990	-
Intergovernmental, non-categorical aid					2,020,878	-	2,020,878	-	-
Investment earnings, unrestricted					141,673	319,150	460,823	93,452	127
Miscellaneous					279,265	59,428	338,693	181,471	47,105
Transfers					150,000	(150,000)	-	-	-
Total general revenues and transfers					63,104,179	228,578	63,332,757	31,035,913	47,232
Change in net position					5,328,237	8,683,366	14,011,603	(465,924)	21,790
NET POSITION AT JULY 1, AS RESTATED (Note 17)					46,977,661	101,762,866	148,740,527	2,541,033	614,701
NET POSITION AT JUNE 30					\$ 52,305,898	\$ 110,446,232	\$ 162,752,130	\$ 2,075,109	\$ 636,491

The Notes to Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 18,566,488	\$ -	\$ 512,453	\$ 19,078,941
Receivables, net	28,124,219	-	59,000	28,183,219
Due from other funds	4,044,306	-	-	4,044,306
Due from other governments	1,187,967	112,676	-	1,300,643
Prepays	50,239	-	-	50,239
Inventories	218,380	-	-	218,380
Restricted cash and cash equivalents	138,255	7,355,210	-	7,493,465
Total assets	<u>\$ 52,329,854</u>	<u>\$ 7,467,886</u>	<u>\$ 571,453</u>	<u>\$ 60,369,193</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 2,262,813	\$ 1,729,806	\$ -	\$ 3,992,619
Deferred revenue (Note 9)	27,373,608	201,090	59,000	27,633,698
Customer deposits	1,257,098	-	-	1,257,098
Due to component units	3,366,144	-	-	3,366,144
Due to other funds	806,383	2,684,818	-	3,491,201
Total liabilities	<u>35,066,046</u>	<u>4,615,714</u>	<u>59,000</u>	<u>39,740,760</u>
Fund balances (Note 16):				
Nonspendable	268,619	-	-	268,619
Restricted	159,715	1,884,972	105,187	2,149,874
Committed	1,418,300	967,200	407,266	2,792,766
Assigned	595,253	-	-	595,253
Unassigned	14,821,921	-	-	14,821,921
Total fund balances	<u>17,263,808</u>	<u>2,852,172</u>	<u>512,453</u>	<u>20,628,433</u>
Total liabilities and fund balances	<u>\$ 52,329,854</u>	<u>\$ 7,467,886</u>	<u>\$ 571,453</u>	<u>\$ 60,369,193</u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total Fund Balance			\$ 20,628,433
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the funds.			
Nondepreciable	\$ 15,591,601		
Depreciable, net	<u>50,909,523</u>		
			66,501,124
Long-term assets, such as due from other governments, are not current financial resources and therefore are not reported in the governmental funds.			14,333
Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental funds but are reported as an asset on the Statement of Net Position.			560,000
Bond issuance costs are reported as expenditures in the governmental funds, but are amortized over the life of the debt in the Statement of Net Position:			
Issuance costs	412,823		
Accumulated amortization	<u>(82,602)</u>		
			330,221
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds			1,261,130
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Bonds payable, including unamortized deferred amounts	(34,484,600)		
Premium, discounts and refundings, net of accumulated amortization	(839,287)		
Deferred amount on refunding, net of accumulated amortization	716,503		
Compensated absences	<u>(1,966,257)</u>		
			(36,573,641)
Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.			<u>(415,702)</u>
Total Net Position - Governmental Activities			<u><u>\$ 52,305,898</u></u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 46,405,519	\$ -	\$ -	\$ 46,405,519
Other local taxes	14,068,000	-	-	14,068,000
Permits, privilege fees, and regulatory licenses	916,677	-	-	916,677
Fines and forfeitures	672,757	-	-	672,757
Use of money and property	140,748	-	925	141,673
Charges for services	3,107,315	-	-	3,107,315
Miscellaneous	265,161	-	-	265,161
Gifts and contributions	51,270	262,305	-	313,575
Recovered costs	509,488	-	-	509,488
Intergovernmental				
Commonwealth	5,000,472	92,638	-	5,093,110
Federal	584,231	192,080	-	776,311
Total revenues	<u>71,721,638</u>	<u>547,023</u>	<u>925</u>	<u>72,269,586</u>
EXPENDITURES				
Current:				
General government	5,240,051	-	-	5,240,051
Judicial administration	1,820,027	-	-	1,820,027
Public safety	9,731,518	-	-	9,731,518
Public works	5,759,636	-	-	5,759,636
Health and welfare	2,204,633	-	59,000	2,263,633
Parks, recreation, and cultural	4,323,040	-	-	4,323,040
Community development	3,324,309	-	-	3,324,309
Economic development	308,788	-	-	308,788
Education	30,426,504	-	-	30,426,504
Capital outlay	-	7,533,141	-	7,533,141
Debt service:				
Principal retirement	3,155,583	-	-	3,155,583
Interest and fiscal charges	1,149,770	-	-	1,149,770
Total expenditures	<u>67,443,859</u>	<u>7,533,141</u>	<u>59,000</u>	<u>75,036,000</u>
Excess (deficiency) of revenues over expenditures	<u>4,277,779</u>	<u>(6,986,118)</u>	<u>(58,075)</u>	<u>(2,766,414)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	2,033,076	-	2,183,076
Transfers out	(2,033,076)	-	-	(2,033,076)
Total other financing sources (uses)	<u>(1,883,076)</u>	<u>2,033,076</u>	<u>-</u>	<u>150,000</u>
Net change in fund balance	2,394,703	(4,953,042)	(58,075)	(2,616,414)
FUND BALANCES AT JULY 1	<u>14,869,105</u>	<u>7,805,214</u>	<u>570,528</u>	<u>23,244,847</u>
FUND BALANCES AT JUNE 30	<u><u>\$ 17,263,808</u></u>	<u><u>\$ 2,852,172</u></u>	<u><u>\$ 512,453</u></u>	<u><u>\$ 20,628,433</u></u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net Change in Fund Balance - Governmental Funds \$ (2,616,414)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 7,641,811	
Capital contribution	37,542	
Depreciation expense	<u>(2,771,123)</u>	
		4,908,230

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold.

(46,130)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	(72,842)	
Capital contribution	<u>(37,542)</u>	
		(110,384)

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net position.

3,155,583

Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences	(33,390)	
Change in long-term amounts due to other governments	61,888	
Change in deferred OPEB charges	<u>34,000</u>	
		62,498

Governmental funds report the effect of bond issuance costs, premiums and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:

Amortization of discounts and premiums	73,771	
Amortization of bond issuance costs	(30,355)	
Amortization of gain/loss from refundings	(87,074)	
Change in accrued interest payable	<u>18,512</u>	
		<u>(25,146)</u>

Change in Net Position - Governmental Activities

\$ 5,328,237

CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 45,230,500	\$ 44,297,500	\$ 46,405,519	\$ 2,108,019
Other local taxes	13,154,600	13,154,600	14,068,000	913,400
Permits, privilege fees, and regulatory licenses	543,210	693,210	916,677	223,467
Fines and forfeitures	888,600	888,600	672,757	(215,843)
Use of money and property	69,000	69,000	140,748	71,748
Charges for services	2,746,772	2,846,772	3,107,315	260,543
Miscellaneous	55,000	114,500	265,161	150,661
Gifts and contributions	6,500	44,756	51,270	6,514
Recovered costs	448,000	505,000	509,488	4,488
Intergovernmental				
Commonwealth	3,820,449	4,978,290	5,000,472	22,182
Federal	471,073	993,189	584,231	(408,958)
Total revenues	<u>67,433,704</u>	<u>68,585,417</u>	<u>71,721,638</u>	<u>3,136,221</u>
EXPENDITURES				
Current:				
General government	5,154,124	6,148,152	5,240,051	908,101
Judicial administration	1,828,670	1,872,482	1,820,027	52,455
Public safety	9,749,242	9,999,266	9,731,518	267,748
Public works	6,087,091	6,371,829	5,759,636	612,193
Health and welfare	2,252,752	2,436,192	2,204,633	231,559
Parks, recreation, and cultural	4,215,697	4,354,673	4,323,040	31,633
Community development	2,441,153	3,605,550	3,324,309	281,241
Economic development	348,122	346,717	308,788	37,929
Education	29,740,504	30,426,504	30,426,504	-
Debt service:				
Principal retirement	3,167,583	3,155,583	3,155,583	-
Interest and fiscal charges	1,351,796	1,149,796	1,149,770	26
Total expenditures	<u>66,336,734</u>	<u>69,866,744</u>	<u>67,443,859</u>	<u>2,422,885</u>
Excess (deficiency) of revenues over expenditures	<u>1,096,970</u>	<u>(1,281,327)</u>	<u>4,277,779</u>	<u>5,559,106</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	150,000	-
Transfers out	(667,076)	(2,033,076)	(2,033,076)	-
Total other financing sources (uses)	<u>(517,076)</u>	<u>(1,883,076)</u>	<u>(1,883,076)</u>	<u>-</u>
Net change in fund balance	<u>\$ 579,894</u>	<u>\$ (3,164,403)</u>	<u>\$ 2,394,703</u>	<u>\$ 5,559,106</u>

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 29,362,064	\$ 3,024,157	\$ 32,386,221
Receivables, net	4,958,937	1,062,064	6,021,001
Due from other governments	-	185,641	185,641
Prepays	5,097	-	5,097
Inventories	406,499	2,959	409,458
Restricted cash and cash equivalents	5,959,997	3,480,112	9,440,109
Total current assets	40,692,594	7,754,933	48,447,527
Noncurrent assets:			
Deferred OPEB charges	351,000	28,000	379,000
Bond issue costs, net	222,564	46,947	269,511
Capital assets, net	81,563,364	17,676,376	99,239,740
Total noncurrent assets	82,136,928	17,751,323	99,888,251
Total assets	122,829,522	25,506,256	148,335,778
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	2,048,150	582,834	2,630,984
Accrued interest	192,732	112,581	305,313
Unearned revenue	72,588	-	72,588
Customer deposits	426,847	46,968	473,815
Due to other funds	1,238,116	121,372	1,359,488
Compensated absences, current	278,991	15,952	294,943
Debt, current	1,443,396	634,093	2,077,489
Total current liabilities	5,700,820	1,513,800	7,214,620
Noncurrent liabilities:			
Deferred rent	20,249	-	20,249
Compensated absences	111,534	13,004	124,538
Debt	18,727,705	11,802,434	30,530,139
Total noncurrent liabilities	18,859,488	11,815,438	30,674,926
Total liabilities	24,560,308	13,329,238	37,889,546
NET POSITION			
Net investment in capital assets	66,480,772	8,655,222	75,135,994
Unrestricted	31,788,442	3,521,796	35,310,238
Total net position	\$ 98,269,214	\$ 12,177,018	\$ 110,446,232

The Notes to Financial Statements are
an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Totals
OPERATING REVENUES			
Charges for services	\$ 20,598,088	\$ 3,312,868	\$ 23,910,956
Rent	250,811	-	250,811
Miscellaneous	83,153	910	84,063
Total operating revenues	<u>20,932,052</u>	<u>3,313,778</u>	<u>24,245,830</u>
OPERATING EXPENSES			
Source of supply	8,412,268	-	8,412,268
Distribution system	2,493,393	-	2,493,393
Collection and disposal	-	1,375,543	1,375,543
Water connections	154,043	-	154,043
Administration	5,886,302	232,921	6,119,223
Depreciation and amortization	3,194,002	609,468	3,803,470
Total operating expenses	<u>20,140,008</u>	<u>2,217,932</u>	<u>22,357,940</u>
Operating income	<u>792,044</u>	<u>1,095,846</u>	<u>1,887,890</u>
NONOPERATING REVENUES (EXPENSES)			
Availability fees	3,606,385	158,833	3,765,218
Loss on disposition of capital assets	(24,635)	-	(24,635)
Interest and investment revenue	54,073	14,266	68,339
Interest expense	(790,424)	(328,515)	(1,118,939)
Net nonoperating revenues (expenses)	<u>2,845,399</u>	<u>(155,416)</u>	<u>2,689,983</u>
Income before contributions and transfers	3,637,443	940,430	4,577,873
CAPITAL CONTRIBUTIONS	4,251,454	4,039	4,255,493
TRANSFERS OUT	<u>(110,000)</u>	<u>(40,000)</u>	<u>(150,000)</u>
Change in net position	7,778,897	904,469	8,683,366
NET POSITION AT JULY 1, AS RESTATED	90,490,317	11,272,549	101,762,866
NET POSITION AT JUNE 30	<u><u>\$ 98,269,214</u></u>	<u><u>\$ 12,177,018</u></u>	<u><u>\$ 110,446,232</u></u>

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Business-type Activities – Enterprise Funds		
	Water	Sewer	Totals
OPERATING ACTIVITIES			
Receipts from customers	\$ 21,290,821	\$ 3,456,226	\$ 24,747,047
Receipts from other sources	333,964	910	334,874
Interfund reimbursements	(1,482,688)	(138,860)	(1,621,548)
Payments to suppliers	(10,712,958)	(966,131)	(11,679,089)
Payments to employees	(4,642,797)	(271,522)	(4,914,319)
Net cash provided by operating activities	<u>4,786,342</u>	<u>2,080,623</u>	<u>6,866,965</u>
NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(110,000)	(40,000)	(150,000)
Interfund borrowing	65,076	(30,776)	34,300
Net cash used in noncapital financing activities	<u>(44,924)</u>	<u>(70,776)</u>	<u>(115,700)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Availability fees	3,498,745	158,833	3,657,578
Intergovernmental capital grants	281,356	-	281,356
Purchases of capital assets	(676,474)	(1,763,727)	(2,440,201)
Proceeds from long-term debt	-	248,076	248,076
Principal paid on capital debt	(1,197,639)	(533,367)	(1,731,006)
Interest paid on capital debt	(817,688)	(430,732)	(1,248,420)
Net cash provided by (used in) capital and related financing activities	<u>1,088,300</u>	<u>(2,320,917)</u>	<u>(1,232,617)</u>
INVESTING ACTIVITIES			
Interest and investment revenue	54,073	14,266	68,339
Net increase (decrease) in cash and cash equivalents	5,883,791	(296,804)	5,586,987
CASH AND CASH EQUIVALENTS JULY 1	29,438,270	6,801,073	36,239,343
CASH AND CASH EQUIVALENTS JUNE 30	<u>\$ 35,322,061</u>	<u>\$ 6,504,269</u>	<u>\$ 41,826,330</u>
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 29,362,064	\$ 3,024,157	\$ 32,386,221
Restricted cash and cash equivalents	5,959,997	3,480,112	9,440,109
Total	<u>\$ 35,322,061</u>	<u>\$ 6,504,269</u>	<u>\$ 41,826,330</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 792,044	\$ 1,095,846	\$ 1,887,890
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	3,194,002	609,468	3,803,470
Change in assets and liabilities:			
(Increase) decrease in:			
Receivables, net	906,485	144,360	1,050,845
Prepays	(435)	244	(191)
Inventories	17,723	812	18,535
Deferred OPEB charges	9,000	2,000	11,000
Increase (decrease) in:			
Accounts payable, other liabilities, and OPEB	114,331	226,879	341,210
Unearned revenue and deferred rent	(213,127)	-	(213,127)
Customer deposits	4,519	(1,002)	3,517
Compensated absences	(38,200)	2,016	(36,184)
Net cash provided by operating activities	<u>\$ 4,786,342</u>	<u>\$ 2,080,623</u>	<u>\$ 6,866,965</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Developer contributions	\$ 4,143,814	\$ 4,039	\$ 4,147,853
Capital asset purchases included in accounts payable	\$ 14,714	\$ 50,002	\$ 64,716
Capitalized interest	\$ -	\$ 122,576	\$ 122,576

The Notes to Financial Statements are an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	Post-Employment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents (Note 4)	\$ 3,193,018	\$ 3,328,085
Investments (Note 4)	95,612,987	-
Contributions receivable	129,621	-
Interest and dividends receivable	28,977	-
Receivables, net	-	2,483,543
Due from general fund	-	1,925,599
	<hr/>	<hr/>
Total assets	98,964,603	7,737,227
LIABILITIES		
Accounts payable	5,666	-
Due to general fund	1,219,880	30,676
Due to other governments	-	7,706,551
	<hr/>	<hr/>
Total liabilities	1,225,546	7,737,227
NET POSITION		
Held in trust for:		
Pension benefits	92,178,034	-
Other post-employment benefits	5,561,023	-
	<hr/>	<hr/>
Total net position	\$ 97,739,057	\$ -
	<hr/> <hr/>	<hr/> <hr/>

CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2013**

	Post-Employment Trust Funds
ADDITIONS	
Employer contributions	\$ 3,516,760
Employee contributions	1,002,436
Investment earnings:	
Interest	49,679
Dividends	1,560,806
Net change in fair value	11,865,735
Total investment earnings	13,476,220
Less investment expense	(532,231)
Net investment earnings	12,943,989
 Total additions	 17,463,185
 DEDUCTIONS	
Benefits	4,844,295
Administration	96,295
 Total deductions	 4,940,590
 Change in net position	 12,522,595
NET POSTION AT JULY 1	85,216,462
NET POSITION AT JUNE 30	\$ 97,739,057

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City of Falls Church, Virginia (the “City”) incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are provided either directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that serves only the City. Through the City of Falls Church School Board, the City provides elementary and secondary education to residents.

The accompanying financial statements present the City and its component units.

Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity’s governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government. They are reported in separate columns to emphasize they are legally separate from the primary government. The following organizations are reported as discretely presented component units and neither publish their own financial reports.

The City of Falls Church Public School Board (the “School Board”) is responsible for elementary and secondary education within the City’s jurisdiction. The members of the School Board are elected. The School Board is fiscally dependent upon the City because City Council approves the School Board’s budget and provides a substantial portion of the School Board’s funds for operations, and issues all debt.

The Falls Church Economic Development Authority (the “EDA”) was created by City Council to promote economic development within the City. The City Council appoints all members of the EDA board. The EDA is fiscally accountable to the Council and the City is potentially liable for any operating deficits. The Council must approve all EDA debt issuances.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Likewise, the primary government is reported separately from its component units.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of these financial statements is on major governmental and enterprise funds, which are presented in separate columns. All remaining governmental funds are aggregated and reported in one column as nonmajor funds.

Major Governmental Funds: The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

Proprietary Funds: The Water Fund and the Sewer Fund are used to account for the financing, construction, and operations of the City's water and sewer systems. City Council has approved the formation of a new proprietary fund, the Stormwater Fund, effective July 1, 2013.

Non Major Special Revenue Fund: The City has one special revenue fund, the Affordable Housing Unit Fund. This fund was originally established with a commitment from City Council. The fund has since received contributions from developers for affordable housing initiatives. The City expects to continue to receive contributions from developers and other entities to this fund.

The City also reports the following fiduciary funds:

Post-Employment Trust Funds: These funds are used to account for the activities of the City's two defined benefit pension plans, the Basic Pension Plan and the Police Pension Plan, which cover all regular and police employees of the City, respectively, as well as the City's and School Board's other post-employment benefit trust funds, which provides for health and life insurance coverage for the City's and School Board's retirees.

Agency Funds: These funds account for assets held in an agency capacity for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except that the fiduciary fund financial statements for the agency funds do not have a measurement focus. Under the economic resources measurement focus and the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Amounts reported as program revenues in the government-wide financial statements include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including availability fees charged to new customers, are reported as nonoperating revenues and expenses.

For the post-employment trust funds, both member and employer contributions to each plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available if they are collectible within 60 days after year end. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

The City's cash and investments other than amounts held in fiduciary funds include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

Receivables and Payables

Activities within the funds that are representative of lending/borrowing arrangements are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. The allowance is calculated using historical collection data and, in certain cases, specific account analysis.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of year end.

Inventories and Prepaids

Inventories are valued at the lower of cost (using the first in, first out method) or market and are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Real Estate and Business Personal Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments, on June 5 and December 5. The City bills and collects its own taxes. Real estate and business-related personal property taxes are levied each calendar year on all taxable property located in the City, and are accounted for in the General Fund. Therefore, real estate and business-related personal property taxes that are due within the current fiscal year and collected within 60 days subsequent to year-end are recorded as revenue. The real estate tax rate for calendar years 2012 and 2013 was \$1.27 per \$100 of assessed value.

Personal Property Taxes

The City levies personal property taxes on motor vehicles and other personal property. These levies are assessed on a calendar year basis as of January 1. Personal property taxes are due on October 5 and are considered delinquent if not received by the due date. On January 1, personal property taxes become an enforceable lien on related property. The tax rate for calendar year 2012 was \$4.84 per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the City received approximately \$2.02 million for the State's share of the local personal property tax payment with the remainder collected by the City.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets (Continued)

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20-50
Water and sewer system	20-50
Purchased capacity	20-40
Buildings	50
Improvements other than buildings	10-20
Machinery and equipment	5-20
Library collections	5
Intangibles (software)	3

Compensated Absences

All reporting entity employees earn annual leave and sick leave based on a prescribed formula. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Upon termination of employment, permanent City employees are entitled to payment of 100% of unused annual leave, generally 25% of unused sick leave, and all of their compensatory leave not to exceed 40 hours for certain employees or 100 hours for other employees. School Board employees are paid up to 40 days of their annual leave and all sick leave at the rate of \$3.75 per hour.

All compensated absences currently payable are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Termination Benefits

The School Board makes payments to eligible employees upon retirement equal to 100% of the average of the three highest years of salaries earned by the employee. The payment is paid monthly in up to 60 equal installments. If the retiree dies during the benefit period, the payments cease. In 2003, the School Board adopted a "sunset" provision for this benefit which restricted eligibility to employees who were already employed by the School Board and had a minimum age of 45 years and 5 years of satisfactory service by July 1, 2002.

The liability for this benefit is estimated using the eligible employees' last salary as of June 30, including employer social security and medicare taxes and was approximately \$3.4 million as of June 30. This liability is liquidated by the School Operating Fund.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Long-term Obligations

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face value of the debt issued plus premium is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council through adoption of a resolution. Only City Council may modify or rescind the commitment.
- **Assigned** - Amounts the City intends to use for a specified purpose; intent can be expressed by City Council or by the City Manager or Finance Director, who has been designated this Authority.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Restricted Amounts

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Minimum Fund Balance Policy

The General Fund reserve target is 17%, but not less than 12%, of current year expenditures. In the event that the unassigned fund balance is used for unforeseen emergency needs, the City shall restore the unassigned fund balance to 12% of General Fund expenditures within two fiscal years. To the extent additional funds are necessary to restore the Unassigned Fund Balance to 17% of General Fund expenditures, such funds shall be accumulated in no more than three approximately equal contributions each fiscal year. This provides for full recovery of the targeted fund balance amount within five years.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2013 total \$469,253 in the general fund and \$4,337,193 in the capital improvements fund.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position for public safety and judicial administration represents unspent forfeited assets and fees.

School Board Debt/Capital Asset Reporting

The City issues debt to finance the construction of school facilities because the School Board does not have borrowing or taxing authority. The City reports this debt in its financial statements. The capital assets acquired by such debt are reported by the City until such time as the outstanding indebtedness is retired, at which time, the net book value is transferred to and reported by the School Board.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Intergovernmental Agreements

The City has agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

County of Fairfax

The City, the County of Fairfax (“Fairfax”), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses Fairfax as its fiscal agent. During 2013, the City paid the CSB approximately \$606 thousand.

The City makes payments for the full cost of the local portion of public assistance payments and for the use of special County health and recreation facilities by City residents. During 2013, the City paid approximately \$829 thousand for these services.

The City uses Fairfax’s landfills for waste disposal and charges are based on tipping fees. During 2013, the City paid approximately \$114 thousand.

The City has an agreement with Fairfax to share in the cost of its sewage treatment facilities. During 2013, the City paid approximately \$681 thousand for sewage treatment costs. In addition, the City issued a note payable to Fairfax for \$5,005,000 during 2000 to pay for the City’s share of the costs to upgrade the Alexandria Sanitation Treatment Plant. The City paid approximately \$328 thousand in debt service towards this note during 2013. Additional information on this debt can be found in Note 10. In 2008, another upgrade was commenced at the Alexandria Sanitation Treatment Plant. The City paid approximately \$311 thousand in 2013 for its share of the costs of the upgrade. All amounts relating to the City’s share of these capital costs are recorded as capital assets in the Sewer Fund.

The City has an agreement with Fairfax to bill for sewer services on Fairfax’s behalf. The City remitted approximately \$22.7 million in sewer revenue receipts during 2013. For this service, the City received approximately \$664 thousand in compensation.

County of Arlington

The City contracts its fire and rescue, and jail and judicial services, to Arlington County, Virginia (“Arlington”). During 2013, the City paid Arlington approximately \$1.8 million for fire and rescue services and approximately \$874 thousand for jail and judicial services.

The City also receives payment from Arlington for its share of the cost of operating a girls’ home facility. Payments received during 2013 amounted to approximately \$597 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2013, the City paid Arlington approximately \$759 thousand, of which \$410 thousand is for operating costs and \$349 thousand is for major upgrades to the treatment facilities. \$410 thousand is recorded as an expense and \$349 thousand is recorded as construction-in-progress in the Sewer Fund, and will be transferred to purchased capacity once the plant is in service.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Intergovernmental Agreements (Continued)

United States Department of Army Corp. of Engineers ("Army")

The City has an agreement with the Army to purchase water and to share water treatment facility maintenance costs. During 2013, the City paid approximately \$5 million to the Army for water and \$1.5 million towards facility maintenance costs. These costs are recorded as an expense in the Water Fund. The City also paid the Army \$415 thousand for debt service on the City's share of certain debt. In addition, during 2013, the City paid approximately \$123 thousand to the Army for its share of the costs to build a water residue processing plant. This is recorded as construction-in-progress in the Water Fund and will be transferred to purchased capacity once the plant is in operation.

An escrow account has been established for the payments made from which the Army makes draws. The account is interest-bearing and all earnings accrue to the City. In addition to the payments made to the Army, the City maintains a balance in the account of approximately two to three months of the cost of water purchased as agreed upon. A restricted asset is recorded in the Water Fund for the balance and a corresponding liability is recorded for the estimated costs not yet drawn down by the Army. As of June 30, the balance in the account was approximately \$1.4 million, and the liability was approximately \$463 thousand. Annually on September 30, the Army reconciles actual amounts incurred against payments. Any difference is recorded as an expense or reduction of expense in the Water Fund.

Northern Virginia Criminal Justice Training Academy (NVCJA)

Along with other local jurisdictions, the City entered into an agreement to assist in financing NVCJA which was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest. During 2013, the City paid NVCJA approximately \$48 thousand for its share of operating and debt service costs.

Northern Virginia Transportation Commission (NVTC)

The NVTC is a joint venture with the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. Information regarding NVTC is provided in NVTC's separately published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, Virginia 22204.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Intergovernmental Agreements (Continued)

Joint Ventures

Washington Metropolitan Area Transit Authority (WMATA)

The City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system but does not maintain an equity interest in WMATA. The City is required to make certain contributions annually to WMATA pursuant to the Interjurisdictional Funding Agreement for Bus Service and the Fifth Interim Capital Contributions Agreement, which were executed in fiscal years 1999 and 1992, respectively. During 2013, the City's required contributions amounted to approximately \$2.4 million. The City received \$1.1 million from the Virginia Department of Rail and Public Transportation to pay for this obligation. The remaining \$1.3 million came from gas tax revenue and other sources. Complete financial statements of WMATA may be obtained at 600 5th Street, NW, Washington, DC 20001.

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information

Formal budgetary integration is employed as a management control device during the year. Budgets for all governmental funds of the primary government and component units are adopted by the City Council on an annual basis consistent with GAAP with the exception of capital leases. The Council adopts project length budgets for the capital projects funds. The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. On a date fixed by the Council, the City Manager submits to Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. Appropriated annual budgets are adopted for the General, Special Revenue, and Capital Projects Funds of the primary government and School Board. If for any reason, the Council fails to adopt the appropriation ordinance prior to July 1, the previous fiscal year's budget remains in effect on a month-to-month basis until the Council adopts the budgets.
4. The Appropriations Ordinance is adopted at the fund and department level. The appropriation for each department can be revised only by the Council. The Council may revise the appropriations for each department through a resolution as long as the total budget for the fund does not change. The City Manager is authorized to transfer unencumbered balances within departments only.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

5. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis unless there have been no expenditures in the project for the last three fiscal years. Encumbrance accounting is employed in governmental funds and proprietary funds. Encumbrances outstanding at year end are reported as assignments of fund balances unless they are already restricted or committed, and do not constitute expenditures or liabilities because the expenses have not yet been incurred; rather, the commitments are automatically reappropriated and honored during the subsequent year.
6. Original and final budgeted amounts are shown. The City required budget amendments during the year, representing a net increase of approximately \$3.7 million in the general fund and approximately \$859 thousand in the school operating fund.

Note 4. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Investment Policy - In accordance with the Code of Virginia and other applicable law, including regulations, the City’s investment policy permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, the State Treasurer’s State Non-Arbitrage Program (SNAP, a pooled investment fund) and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City’s position in the pools is the same as the value of the pool shares.

The City’s investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The City’s investments are not subject to foreign currency risk.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s, and Fitch Investors Service, provided that the issuing corporation has a net worth of at least \$50 million and its long term debt is rated “A” or better by Moody’s and Standard & Poor’s. Banker’s acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investors Service.

Although State Statute does not impose credit standards on repurchase agreement counterparties, bankers’ acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 58% of the portfolio was invested in LGIP and 42% was invested in SNAP.

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the portfolio will be invested in the commercial paper of any single issuer. The Policy establishes limitations on the holdings on non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper is 35% of the portfolio.

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than 1 year from the date of purchase, with no more than 10% with maturities of more than six months from date of purchase. Reserve funds for the Water and Sewer Funds may be invested in securities with longer maturities and proceeds from the sale of bonds must be invested in SNAP to manage arbitrage requirements.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the City’s investments are held in a bank’s trust department in the City’s name.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Deposits and Investments (Continued)

Investments (Continued)

The City's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S & P Credit Rating</u>
Primary Government:		
LGIP	\$ 20,184,922	AAAm
SNAP	14,994,068	AAAm
Money market funds	116	n/a
Primary government investments	<u>35,179,106</u>	
Component Unit – School Board:		
LGIP	3,483,784	AAAm
Component Unit – EDA:		
LGIP	119,236	AAAm
Component unit investments	<u>3,603,020</u>	
Total Investments	<u>\$ 38,782,126</u>	

Cash and investments are reflected in the financial statements as follows:

	<u>Component Units</u>		
	<u>Primary Government</u>	<u>School Board</u>	<u>Economic Development Authority</u>
Deposits and investments:			
Demand deposits	\$ 33,219,746	\$ 8,942	\$ -
LGIP	20,184,922	3,483,784	119,236
SNAP	14,994,068	-	-
	<u>\$ 68,398,736</u>	<u>3,492,726</u>	<u>\$ 119,236</u>
Statement of net position:			
Cash and investments	\$ 51,465,162	\$ 3,492,726	\$ 119,236
Restricted cash and cash equivalents	16,933,574	-	-
	<u>\$ 68,398,736</u>	<u>\$ 3,492,726</u>	<u>\$ 119,236</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Restricted cash and cash equivalents consist of unspent bond proceeds, amounts held in escrow for the US Department of Army, as described in Note 2, and for customer deposits.

Post-Employment Trust Funds

As of June 30, the City's post-employment trust funds had the following cash and investments:

<u>Investment Type</u>	<u>Fair Value</u>
Money market funds	\$ 3,193,018
Domestic equities	58,544,001
Domestic fixed income	14,876,508
International equities	18,830,119
Real estate investment trusts	<u>3,362,359</u>
Total cash, cash equivalents, and investments	<u><u>\$ 98,806,005</u></u>

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the Pension Fund's investment policy permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the City retirement plans are vested in the Retirement Board as described in the City Ordinance #1097. Investments of the Pension Fund are held by trustees.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Pension Funds

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Retirement Board to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, and actual concentration as of June 30:

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
Domestic equities	48%	62%	62%
Domestic fixed income	12%	20%	15%
International equities	15%	23%	19%
Real estate investment fund	8%	12%	4%

Market Risk:

Investments of the pension fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled by limiting exposure to international equities. The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

Other Post-Employment Benefits (OPEB) Fund

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the OPEB Fund's investment policy permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the City OPEB trust fund is vested in the Finance Board as described in the City Resolution TR7-14. Investments of the OPEB Fund are held by trustees.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Other Post-Employment Benefits (OPEB) Fund (Continued)

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Finance Board to direct the funds manager to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, and actual concentration as of June 30:

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual as of June 30, 2013</u>
Domestic equities	37%	47%	42%
Domestic fixed income	28%	38%	33%
International equities	14%	24%	23%
Real estate investment trusts	1%	11%	2%

Market Risk:

Investments of the OPEB fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities. The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 5. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities	Total	Component Unit – School Board
Receivables:				
Accounts-Billed	\$ 763,210	\$ 2,271,722	\$ 3,034,932	\$ 30,906
Accounts-Unbilled	90,000	4,780,179	4,870,179	-
Other	434,825	-	434,825	-
Property taxes:				
Delinquent	1,582,852	-	1,582,852	-
Not yet due	26,206,232	-	26,206,232	-
Total receivables	<u>29,077,119</u>	<u>7,051,901</u>	<u>36,129,020</u>	<u>30,906</u>
Allowances for uncollectibles:				
Accounts receivable	(559,800)	(1,030,900)	(1,590,700)	-
Property taxes:				
Delinquent	(279,300)	-	(279,300)	-
Not yet due	(54,800)	-	(54,800)	-
Total allowances for uncollectibles	<u>(893,900)</u>	<u>(1,030,900)</u>	<u>(1,924,800)</u>	<u>-</u>
Total net receivables	<u>\$ 28,183,219</u>	<u>\$ 6,021,001</u>	<u>\$ 34,204,220</u>	<u>\$ 30,906</u>

Note 6. Due from Other Governments

Amounts due from other governments are as follows:

	Governmental Activities	Business-type Activities	Component Unit – School Board
Commonwealth of Virginia			
State sales tax	\$ -	\$ -	\$ 354,410
Other state school funds	-	-	4,468
Local sales tax	673,137	-	-
Recordation tax	77,801	-	-
Communication tax	139,111	-	-
Other state funds	32,096	-	-
Total	<u>922,145</u>	<u>-</u>	<u>358,878</u>
Federal			
Economic development incentive	161,760	-	-
Other federal funds	167,500	-	-
Total	<u>329,260</u>	<u>-</u>	<u>358,878</u>
Other governments			
Fairfax County	-	185,641	-
Arlington County	63,571	-	-
Total due from other governments	<u>\$ 1,314,976</u>	<u>\$ 185,641</u>	<u>\$ 358,878</u>

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 7. Interfund Receivables, Payables, and Transfers

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are accounted for through interfund receivable and payable accounts. Interfund receivables and payables typically result when funds overdraw their share of the pooled cash and from interfund reimbursements for administrative costs. All amounts are expected to be paid within one year.

Inter-fund balances consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 4,044,306	\$ 806,383
Capital Projects	-	2,684,818
Major Proprietary Funds:		
Water	-	1,238,116
Sewer	-	121,372
Major Component Unit:		
School Board	131,340	-
Fiduciary Funds:		
Basic Plan	-	489,503
Police Plan	-	147,203
OPEB Benefits	-	451,834
School OPEB Benefits	-	131,340
Agency	1,925,599	30,676
	<u>\$ 6,101,245</u>	<u>\$ 6,101,245</u>

Transfers from the general fund to the capital projects fund of \$2,033,076 are to provide funding for capital projects. Transfers from the water and sewer fund to the general fund, \$110,000 and \$40,000, respectively, are for payments in lieu of taxes.

The general fund charges administrative costs to the Water and Sewer Funds. The charges to the Water Fund were approximately \$1.2 million and approximately \$0.1 million to the Sewer Fund during 2013. These are reimbursements for services provided.

Due to/from balances between the City and its component units consisted of the following:

	<u>Due To</u>	<u>Due From</u>
Primary Government:		
General fund	\$ -	\$ 3,366,144
Component Units:		
School Board	3,116,144	-
EDA	250,000	-
	<u>\$ 3,366,144</u>	<u>\$ 3,366,144</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Capital Assets

Capital asset activity was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital asset, non-depreciable:				
Land	\$ 8,423,880	\$ -	\$ -	\$ 8,423,880
Construction in progress	820,279	6,361,242	(13,800)	7,167,721
Total capital assets, non-depreciable	<u>9,244,159</u>	<u>6,361,242</u>	<u>(13,800)</u>	<u>15,591,601</u>
Capital assets, being depreciated:				
Buildings and system	63,270,048	113,852	(55,865)	63,328,035
Machinery and equipment	11,235,625	874,441	(540,139)	11,569,927
Improvements other than buildings	4,816,552	37,258	-	4,853,810
Infrastructure	10,047,421	9,500	-	10,056,921
Intangible	1,478,399	54,530	-	1,532,929
Library collections	1,986,591	242,330	(170,593)	2,058,328
Total capital assets, depreciable:	<u>92,834,636</u>	<u>1,331,911</u>	<u>(766,597)</u>	<u>93,399,950</u>
Less accumulated depreciation for:				
Buildings and system	(19,705,809)	(1,394,106)	19,408	(21,080,507)
Machinery and equipment	(8,788,961)	(713,685)	505,830	(8,996,816)
Improvements other than buildings	(2,771,689)	(251,561)	-	(3,023,250)
Infrastructure	(6,228,573)	(190,333)	-	(6,418,906)
Intangible	(1,432,747)	(19,970)	-	(1,452,717)
Library collections	(1,487,356)	(201,468)	170,593	(1,518,231)
Total accumulated depreciation	<u>(40,415,135)</u>	<u>(2,771,123)</u>	<u>695,831</u>	<u>(42,490,427)</u>
Total capital assets, depreciable, net	<u>52,419,501</u>	<u>(1,439,212)</u>	<u>(70,766)</u>	<u>50,909,523</u>
Capital assets, net	<u>\$ 61,663,660</u>	<u>\$ 4,922,030</u>	<u>\$ (84,566)</u>	<u>\$ 66,501,124</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
<u>Water fund:</u>				
Capital asset, non-depreciable:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in progress	1,485,346	28,086	(1,099,047)	414,385
Total capital assets, non-depreciable	4,080,228	28,086	(1,099,047)	3,009,267
Capital assets, depreciable:				
Building and system	99,075,518	4,532,086	(35,415)	103,572,189
Machinery and equipment	3,888,482	146,033	(122,066)	3,912,449
Improvements other than buildings	73,876	-	-	73,876
Purchased capacity	24,408,478	1,221,806	-	25,630,284
Other intangible	36,801	-	-	36,801
Total capital assets, depreciable:	127,483,155	5,899,925	(157,481)	133,225,599
Less accumulated depreciation for:				
Building and system	(43,692,114)	(2,105,295)	35,415	(45,761,994)
Machinery and equipment	(1,831,399)	(336,911)	97,432	(2,070,878)
Improvements other than buildings	(34,482)	(7,500)	-	(41,982)
Purchased capacity	(6,021,051)	(744,296)	-	(6,765,347)
Other intangible	(31,301)	-	-	(31,301)
Total accumulated depreciation	(51,610,347)	(3,194,002)	132,847	(54,671,502)
Total capital assets depreciable, net	75,872,808	2,705,923	(24,634)	78,554,097
Capital assets, net	\$ 79,953,036	\$ 2,734,009	\$ (1,123,681)	\$ 81,563,364

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
<u>Sewer fund:</u>				
Capital asset, non-depreciable:				
Construction in progress	\$ 3,409,916	\$ 651,404	\$ (69,987)	\$ 3,991,333
Total capital assets, non-depreciable	<u>3,409,916</u>	<u>651,404</u>	<u>(69,987)</u>	<u>3,991,333</u>
Capital assets, depreciable:				
Building and system	5,675,533	328,834	-	6,004,367
Machinery and equipment	160,905	-	-	160,905
Purchased capacity	12,686,289	276,286	-	12,962,575
Other intangible	9,900	-	-	9,900
Total capital assets, depreciable:	<u>18,532,627</u>	<u>605,120</u>	<u>-</u>	<u>19,137,747</u>
Less accumulated depreciation for:				
Building and system	(1,973,143)	(91,580)	-	(2,064,723)
Machinery and equipment	(150,541)	(6,062)	-	(156,603)
Purchased capacity	(2,709,652)	(511,826)	-	(3,221,478)
Other intangible	(9,900)	-	-	(9,900)
Total accumulated depreciation	<u>(4,843,236)</u>	<u>(609,468)</u>	<u>-</u>	<u>(5,452,704)</u>
Total capital assets depreciable, net	<u>13,689,391</u>	<u>(4,348)</u>	<u>-</u>	<u>13,685,043</u>
Capital assets, net	<u>17,099,307</u>	<u>647,056</u>	<u>(69,987)</u>	<u>17,676,376</u>
Business-type capital assets, net	<u>\$ 97,052,343</u>	<u>\$ 3,381,065</u>	<u>\$ (1,193,668)</u>	<u>\$ 99,239,740</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Component Unit – School Board:</u>				
Capital asset, non-depreciable:				
Land	\$ 1,273,354	\$ -	\$ -	\$ 1,273,354
Total capital assets, non-depreciable	1,273,354	-	-	1,273,354
Capital assets, depreciable:				
Buildings and system	1,311,055	-	-	1,311,055
Machinery and equipment	2,701,408	636,319	(207,351)	3,130,376
Improvements other than buildings	10,532	357,190	-	367,722
Library collections	691,500	49,747	(42,208)	699,039
Intangible	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	4,743,571	1,043,256	(249,559)	5,537,268
Less accumulated depreciation for:				
Buildings and system	(357,887)	(34,159)	-	(392,046)
Machinery and equipment	(1,806,249)	(216,509)	181,100	(1,841,658)
Improvements other than buildings	(2,984)	(6,655)	-	(9,639)
Library collections	(567,471)	(58,208)	42,208	(583,471)
Intangible	(7,996)	-	-	(7,996)
Leasehold improvements	(6,675)	(2,108)	-	(8,783)
Total accumulated depreciation	(2,749,262)	(317,639)	223,308	(2,843,583)
Total capital assets, depreciable, net	1,994,309	725,617	(26,251)	2,693,675
Capital assets, net	\$ 3,267,663	\$ 725,617	\$ (26,251)	\$ 3,967,029
<u>Component Unit – EDA:</u>				
Capital assets, not being depreciated:				
Land	\$ 517,255	\$ -	\$ -	\$ 517,255

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	\$ 239,082
Judicial administration	36,559
Public safety	319,578
Public works	392,447
Health and welfare	1,958
Education	1,251,788
Parks, recreation, and cultural	509,433
Community development	<u>20,278</u>
Total governmental activities	<u>\$ 2,771,123</u>
Primary Government – Business-type activities:	
Water	\$ 3,194,002
Sewer	<u>609,468</u>
Total business-type activities	<u>\$ 3,803,470</u>
Component Unit – School Board:	
Education	<u>\$ 317,639</u>

Note 9. Deferred/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At year end, the various components of deferred revenue and unearned revenue were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Governmental Funds</u>
Unavailable				
Delinquent property taxes	\$ -	\$ -	\$ -	\$ 878,780
Other	-	-	-	235,500
Unearned				
Property taxes not yet due	26,142,978	-	26,142,978	26,289,828
Unearned other	<u>229,590</u>	<u>72,588</u>	<u>302,178</u>	<u>229,590</u>
Total deferred/unearned revenue	<u>\$ 26,372,568</u>	<u>\$ 72,588</u>	<u>\$ 26,445,156</u>	<u>\$ 27,633,698</u>

The Affordable Housing fund loans money to first-time homebuyers to be repaid when the homebuyers sell or refinance the property. In addition to reflecting an expenditure for the loan disbursement, a receivable with offsetting deferred revenue is reported at the fund level. On the government-wide statements, the disbursement results only in a loan receivable with no offset.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 10. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

Primary Government

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
General obligation bonds	\$ 37,640,183	\$ -	\$ 3,155,583	\$ 34,484,600	\$ 3,317,300
Bond premium and discount	913,058	-	73,771	839,287	-
Deferred amounts on refunding	(803,577)	-	(87,074)	(716,503)	-
Compensated absences	1,932,867	1,577,087	1,543,697	1,966,257	1,152,435
Total long-term liabilities	<u>\$ 39,682,531</u>	<u>\$ 1,577,087</u>	<u>\$ 4,685,977</u>	<u>\$ 36,573,641</u>	<u>\$ 4,469,735</u>

Business-type Activities:

Water fund:

General obligation bonds	\$ 17,235,000	\$ -	\$ 850,000	\$ 16,385,000	\$ 1,095,000
Notes payable	3,701,432	-	347,639	3,353,793	348,396
Bond premium and discount	471,020	-	31,110	439,910	-
Deferred amounts on refunding	(10,023)	-	(2,421)	(7,602)	-
Compensated absences	428,726	366,456	404,657	390,525	278,991
Total long-term liabilities	<u>\$ 21,826,155</u>	<u>\$ 366,456</u>	<u>\$ 1,630,985</u>	<u>\$ 20,561,626</u>	<u>\$ 1,722,387</u>

Sewer fund:

General obligation bonds	\$ 6,667,864	\$ 248,076	\$ 257,403	\$ 6,658,537	\$ 267,890
Revenue bonds	2,482,949		78,789	2,404,160	161,141
Notes payable	3,278,398	-	197,175	3,081,223	205,062
Bond premium and discount	308,622	-	16,015	292,607	-
Compensated absences	26,940	30,640	28,624	28,956	15,952
Total long-term liabilities	<u>\$ 12,764,773</u>	<u>\$ 278,716</u>	<u>\$ 578,006</u>	<u>\$ 12,465,483</u>	<u>\$ 650,045</u>

Business-type activities

Total long-term liabilities	<u>\$ 34,590,928</u>	<u>\$ 645,172</u>	<u>\$ 2,208,991</u>	<u>\$ 33,027,109</u>	<u>\$ 2,372,432</u>
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CITY OF FALLS CHURCH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 10. Long-Term Liabilities (Continued)

Component Unit- School Board:

	Beginning Balance	Increases	Decrease	Ending Balance	Due Within One Year
Termination benefits	\$ 3,633,000	\$ 84,211	\$ 299,211	\$ 3,418,000	\$ 199,000
Compensated absences	1,082,995	29,467	-	1,112,462	472,452
Capital leases	153,738	-	66,516	87,222	69,286
Total long-term liabilities	<u>\$ 4,869,733</u>	<u>\$ 113,678</u>	<u>\$ 365,727</u>	<u>\$ 4,617,684</u>	<u>\$ 740,738</u>

Annual debt service requirements to maturity are as follows:

Governmental Activities				Business-type Activities												
General Obligation																
Bonds				Bonds		Revenue Bonds		Notes Payable								
Principal		Interest		Principal		Interest		Principal		Interest						
2014	\$	3,317,300	\$	1,013,554	\$	1,362,890	\$	919,796	\$	161,141	\$	70,925	\$	553,458	\$	184,606
2015		2,452,300		891,191		1,393,561		875,161		166,011		66,055		563,498		171,906
2016		2,560,000		802,600		1,424,424		826,891		171,029		61,037		575,654		159,027
2017		2,615,000		733,575		1,200,485		776,815		176,198		55,868		588,893		145,788
2018		2,750,000		651,640		1,236,751		729,425		181,524		50,542		602,488		132,193
2019-2023		13,716,666		2,165,928		6,440,404		2,870,763		993,312		167,019		2,034,821		462,056
2024-2028		5,693,333		954,104		7,257,026		1,410,166		554,945		25,221		850,215		168,742
2029-2033		1,380,001		383,650		2,727,996		177,803		-		-		236,415		92,256
2034-2038		-		-		-		-		-		-		246,800		54,327
2039-2042		-		-		-		-		-		-		182,774		12,957
	\$	34,484,600	\$	7,596,242	\$	23,043,537	\$	8,586,820	\$	2,404,160	\$	496,667	\$	6,435,016	\$	1,583,858

The following are the general obligation bonds that were outstanding as of June 30:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
City:						
General obligation	3.32%	01/21/2005	04/01/2015	\$ 1,023,000	\$ 204,600	\$ -
General obligation	4.00%	03/08/2007	08/01/2021	\$ 6,260,000	5,485,000	-
General obligation	2.00-4.00%	03/06/2012	08/01/2024	\$ 15,300,000	15,300,000	-
General obligation	2.00-3.00%	12/22/2011	01/15/2032	\$ 8,570,000	5,550,000	2,485,000
VRA bond	3.70-5.10%	12/01/2007	10/01/2027	\$ 8,220,000	-	6,775,000
VRA bond	2.82-5.92%	11/19/2009	10/01/2029	\$ 5,385,000	-	4,825,000
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	\$ 5,500,000	-	5,330,000
VRA line of credit	3.35	05/13/2009	09/01/2029	\$ 4,100,000	-	3,628,537
VPSA bond	4.60-6.10%	05/02/1996	01/15/2017	\$ 2,445,000	440,000	-
General Obligation Bond	3.40-5.00%	03/18/2004	04/01/2015	\$ 32,340,000	3,230,000	-
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	\$ 1,935,000	1,335,000	-
VPSA bond	4.25	12/15/2011	12/01/2030	\$ 3,000,000	2,940,000	-
					<u>\$ 34,484,600</u>	<u>\$ 23,043,537</u>

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 10. Long-Term Liabilities (Continued)

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Sewer revenue bond	3.00	01/01/2006	07/01/2025	\$ 3,275,000	\$ -	<u>\$ 2,404,160</u>
Note payable –						
District of Columbia	3.25	06/01/2011	09/01/2041	\$ 5,970,604	-	\$ 1,265,046
Note payable –	3-month muni					
US Treasury	bond rate	06/30/2009	06/30/2022	\$ 4,453,426	-	2,088,747
Note payable – Fairfax	4.00	06/30/2000	06/30/2025	\$ 5,005,000	-	<u>3,081,223</u>
					<u>\$ -</u>	<u>\$ 6,435,016</u>

Revenue Bonds

The revenue bond has a rate covenant which states that the City will fix and collect rates, fees and other charges for the use of and for services furnished or to be furnished by the System so that in each fiscal year, the net revenues available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal and interest on all the revenue bonds. The City met this covenant in the current year.

Obligations Under Capital Leases

The School Board leased equipment, vehicles and buses under various capital leases expiring at various dates through 2014. The machinery and equipment acquired through capital leases have a cost of \$800,585 and accumulated depreciation of \$680,501, resulting in a net book value of \$120,094. The present value of minimum lease payments is \$87,222.

Operating Lease Commitments

The City and School Board lease office facilities and other equipment under various long-term lease agreements. Total costs for such leases were approximately \$121 thousand to the City and approximately \$263 thousand to the School Board during 2013. The future minimum lease payments for these leases are shown below:

	Primary Government Governmental Activities	Component Unit School Board
2014	\$ 109,880	\$ 273,142
2015	88,434	283,658
2016	65,841	294,579
2017	68,376	305,920
2018	71,008	317,698
2019-2020	<u>76,820</u>	<u>320,422</u>
Total	<u>\$ 480,359</u>	<u>\$ 1,795,419</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 11. Commitments and Contingent Liabilities

Contingent Liabilities: Federal programs in which the City participates were audited in accordance with provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this document, all major programs were tested for compliance with applicable grant requirements. While no matters of material noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of current grant program expenditures, if any, would be immaterial.

The City is a defendant in various lawsuits. Although the outcome is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse affect on its financial condition.

Construction and Improvement Contracts: The City has the following active construction and improvement commitments as of June 30:

<u>Project</u>	<u>Amount Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities:		
Thomas Jefferson Elementary School expansion	\$ 5,226,840	\$ 633,791
Thomas Jefferson Elementary School Renovation	1,219,294	2,908,608
Business-Type Activities -Sewer:		
Alexandria Sewer Authority upgrades	1,476,723	60,906
Total	<u>\$ 7,922,857</u>	<u>\$ 3,603,306</u>

Note 12. Virginia Retirement System

Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 12. Virginia Retirement System (Continued)

Plan Description (continued)

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 12. Virginia Retirement System (Continued)

Plan Description (continued)

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2013 was 11.16% of annual covered payroll.

The School Board's current contribution rate for 2013 was 11.66% of covered payroll. The School Board's required contributions to the teacher cost-sharing pool were \$3,111,301 for 2013, \$2,076,938 for 2012, and \$1,762,186 for 2011. In each year, the School Board contributed 100% of the required contributions.

Annual Pension Cost

For 2013, the City and School Board's annual pension cost was equal to the required and actual contributions.

Three-Year Trend Information
City

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 108,949	100%	\$ -
June 30, 2012	\$ 66,398	100%	\$ -
June 30, 2011	\$ 67,024	100%	\$ -

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 12. Virginia Retirement System (Continued)

Annual Pension Cost (Continued)

The 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 104.59% funded. The actuarial accrued liability for benefits was \$3,525,916, and the actuarial value of assets was \$3,687,614, resulting in an unfunded (overfunded) actuarial accrued liability (UAAL) of (\$161,698). The covered payroll (annual payroll of active employees covered by the plan) was \$1,019,807, and the ratio of the UAAL to the covered payroll was (15.86%).

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 13. Basic and Police Pension Plans

Plan Description

The City's Basic Pension Plan is a cost sharing multiple-employer defined benefit pension plan, covering all permanent employees of the City who are scheduled to work twenty hours or more per week, except police officers who are covered under the Police Pension Plan. School Board employees who work less than 80% of full time and are not eligible to participate in VRS, but meet the City pension plan's requirements, are eligible for the City's Basic Pension plan.

The Police Pension Plan is a single-employer defined benefit pension plan covering the City's police officers that work on a full-time basis.

Both Plans are authorized by City Council and are administered by the City. Benefit provisions are established and amended by City resolutions. Participants are 100% vested after five years of participation.

Member and employee contributions to the Plans are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 13. Basic and Police Pension Plans (Continued)

Plan Description (Continued)

Upon retirement, a participant in either of the two City Plans would receive a monthly retirement allowance, which is determined based on a certain percentage of the participant's average final compensation at the date of retirement and the number of years of the participant's credited service. In the event of death prior to retirement eligibility, the participant's accumulated contributions are paid to the participant's designated beneficiaries in a lump sum. If a participant were vested and eligible for early or regular retirement at time of death, the designated beneficiary would receive a monthly retirement allowance.

The Plans do not issue stand-alone financial reports.

The City's membership in the Basic and Police Pension Plans as of July 1, 2012, the date of the most recent valuation, were as follows:

	<u>Basic</u>	<u>Police</u>
Retirees and beneficiaries	181	29
Terminated vested members	66	6
Active members	<u>324</u>	<u>33</u>
Total	<u><u>571</u></u>	<u><u>68</u></u>

Summary of Significant Accounting Policies

The financial statements of the Basic and Police Pension Plans are prepared using the accrual basis of accounting. Plan contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30. Securities without an established market are reported at estimated fair value.

Funding Policy

The City Council establishes and may amend the contribution requirements of both plans. The City is required to contribute at an actuarially-determined rate. For 2013, the total contributions rate was 16.86% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0% and 30.78% for the Police Pension Plan, with employees contributing 7.0%. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back. Administrative costs are borne by the assets of the plans.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 13. Basic and Police Pension Plans (Continued)

Funding Policy (Continued)

On July 28, 2008, the City Council approved an amendment to the plans to allow employees to purchase up to four years credit for service with other governmental employers; Federal, military, State or local. The contribution for the purchase of credit is to be actuarially determined in order to make such purchase financially neutral to the pension funds.

Annual Pension Cost

Annual pension cost and contributions made during the fiscal year was approximately \$2.7 million and \$717 thousand for Basic and Police Pension Plans, respectively, which were equal to the required and actual contributions. The following table shows the required annual pension costs and the percentage contributed for the last three years:

Fiscal Year Ended June 30	Basic			Police		
	Annual Pension (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 2,723,944	100%	\$ -	\$ 717,411	100%	\$ -
2012	\$ 2,654,196	100%	\$ -	\$ 626,608	100%	\$ -
2011	\$ 1,741,933	100%	\$ -	\$ 358,900	100%	\$ -

The following is relevant actuarial information as of July 1, 2011, the valuation date which the annual pension costs are based on:

	Basic	Police
Actuarial valuation date	July 1, 2011	July 1, 2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amount, Open	Level Dollar Amount, Open
Amortization period	10 years	15 years
Asset valuation method	5-year Smoothed Method	5-year Smoothed Method
Actuarial assumptions:		
Investment rate of return	7.500%	7.500%
Projected salary increases	4.500%	4.500%
Includes inflation at	2.750%	2.750%
Cost of living adjustments	1.375%	1.375%

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 13. Basic and Police Pension Plans (Continued)

Annual Pension Cost (Continued)

The following is relevant actuarial information as of July 1, 2012, the date the most recent valuation, is based on:

	<u>Basic</u>	<u>Police</u>
Actuarial valuation date	July 1, 2012	July 1, 2012
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amount, Open	Level Dollar Amount, Open
Amortization period	10 years	15 years
Asset valuation method	5-year Smoothed Method	5-year Smoothed Method
Actuarial assumptions:		
Investment rate of return	7.500%	7.500%
Projected salary increases	4.500%	4.500%
Includes inflation at	2.750%	2.750%
Cost of living adjustments	1.375%	1.375%

Funded Status and Funding Progress

The funded status of the plans as of July 1, 2012, the date of the most recent valuation is as follows:

Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ([b-a]/c)
Basic	\$ 63,636,116	\$ 70,816,837	\$ 7,180,721	89.9%	\$ 14,876,734	48.3%
Police	\$ 17,414,567	\$ 19,849,795	\$ 2,435,228	87.7%	\$ 2,220,570	109.7%

The required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 14. Other Post-employment Benefits

Plan Description

The City provides post-employment health care insurance benefits for employees who are eligible for retirement benefits and who retire from the City under City Council resolution number 82-20. There is no provision for deferral of benefits for employees who separate from City employment without retiring. The School Board also provides post-employment health insurance benefits for eligible retirees. An irrevocable trust fund was established in 2007 by action of City Council for purposes of pooling, accumulating and accounting for assets necessary to fund the City's and the School Board's future obligations for other post employment benefits. The trust fund is administered by the OPEB Finance Board consisting of the City Treasurer, Chief Financial Officer, and a citizen appointee. The plans do not issue separate financial statements.

Summary of Significant Accounting Policies

Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30. Securities without an established market are reported at estimated fair value.

Plan Descriptions and Contribution Information

The City and School Board OPEB plans are single-employer defined benefit post-employment healthcare plans that cover retired City and School Board employees. The City pays up to one-half of the health insurance premiums for employees hired before April 1, 2008. For employees hired on or after April 1, 2008 who complete at least ten years of service, the City pays 2% of the premium for each year of service up to a maximum of 50%. The School Board pays up to forty percent of the health insurance premiums of School Board employees depending on years of service and/or date of hire. The City Council and the School Board have the authority to change these benefits.

Membership in the plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation:

	<u>City</u>	<u>School Board</u>
Retirees and beneficiaries	98	52
Active members	246	390
Total	<u>344</u>	<u>442</u>

Annual OPEB Cost and Net OPEB Obligation

Contribution requirements are established by City Council and the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 14. Other Post-employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's and the School Board's OPEB cost (expense) is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's and the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in their net OPEB asset.

	<u>City</u>	<u>School Board</u>
Annual Required Contribution (ARC)	\$ 907,000	\$ 513,000
Interest on prior year OPEB asset	(73,000)	(61,000)
Adjustment to the ARC	68,000	57,000
Net OPEB cost	902,000	509,000
Contributions made	865,000	561,000
Increase (decrease) in net OPEB asset	(37,000)	52,000
Net OPEB asset, beginning of year	976,000	807,000
Net OPEB assets, end of year	<u>\$ 939,000</u>	<u>\$ 859,000</u>

Trend Information

The City's and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the past three years were as follows:

Fiscal Year Ended	<u>City</u>			<u>School Board</u>		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2013	\$ 902,000	95.90%	\$ (939,000)	\$ 509,000	110.22%	\$ (859,000)
June 30, 2012	887,000	100.00%	(976,000)	509,000	133.60%	(807,000)
June 30, 2011	947,000	81.27%	(976,000)	779,000	79.87%	(636,000)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 14. Other Post-employment Benefits (Continued)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2012, the most recent actuarial valuation date, are as follows:

Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ([b-a]/c)
City	\$ 2,384,000	\$ 11,124,000	\$ 8,740,000	21.47%	\$ 10,155,323	86.06%
School Board	\$ 2,429,050	\$ 5,273,000	\$ 3,024,000	42.70%	\$ 13,784,302	21.94%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employments, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required supplementary information presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plans (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and School Board and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following methods and assumptions were used as of June 30, 2012, the valuation upon which the 2013 ARC is based on:

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 14. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

	<u>City and School Board</u>
Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of payroll
Remaining Amortization period	25 years
Asset valuation method	5-year Smoothed Method
Actuarial assumptions:	
Payroll growth rate	4.50%
Investment rate of return	7.50%
Consumer Price Index	2.75%
Healthcare cost trend	Getzen Model
2012	7.10%
2013	6.70%
Ultimate	4.70%

Note 15. Risk Management

The City participates in the Commonwealth of Virginia's Law Enforcement Liability Plan, called VA Risk2, operated by the Division of Risk Management of the Commonwealth's Department of General Services. It was created in accordance with Sec. 2.1-526.8:1 of the Code of Virginia, which says that the State shall have the right and duty to defend any suit seeking damages or compensation against the City's officials and employees on account of wrongful acts even if any of the allegations of the suits are groundless, false, or fraudulent and may make investigation and settlement of any claims or suit as deemed expedient. The limits of VA Risk2 coverage are \$1,000,000 per claim.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance through the Virginia Municipal Liability (VML) Insurance Programs. The City also carries workers' compensation insurance through the VML Insurance Programs. This program is administered by a servicing contractor, which furnishes claims review and processing services. Each member jointly and severally agrees to assume, pay and discharge any liability. The City pays VML Insurance Programs contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Programs and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Programs may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The School Board carries commercial insurance through Utica Mutual for property, casualty, general liability, and automobile coverage. Errors and omissions coverage are provided through the VaRISK 2 pool. Workers' compensation insurance is provided through School Systems of Virginia, a group self-insurance association. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

CITY OF FALLS CHURCH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 16. Fund Balances

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

	General Fund	Other Governmental Funds
Nonspendable:		
Prepays	\$ 50,239	\$ -
Inventories	218,380	-
Total nonspendable	268,619	-
Restricted for:		
Capital projects	-	1,884,972
Grants	159,715	-
Affordable housing	-	105,187
Total restricted	159,715	1,990,159
Committed to:		
Capital projects	518,300	967,200
Stormwater	900,000	-
Affordable housing	-	407,266
Total committed	1,418,300	1,374,466
Assigned to:		
General administration	34,685	-
Judicial administration	34,826	-
Public safety	27,499	-
Public works	354,239	-
Health and welfare	23	-
Parks, recreation and cultural	9,933	-
Community development	8,025	-
Economic development	23	-
School debt service	126,000	-
Total assigned	595,253	-
Unassigned	14,821,921	-
Total fund balance	\$ 17,263,808	\$ 3,364,625

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 17. Restatement

Beginning net position in the sewer fund was increased by \$145,641 to record a receivable from Fairfax County for previous errors in billing sewer carrying fees.

Note 18. Subsequent Events

In August 2013, the City paid off a loan to the US Treasury for the Washington Aqueduct for \$2,088,747. The original maturity was in fiscal year 2022.

In September 2013, the City authorized the issuance of \$19,575,000 GO Public Improvement Bonds to finance projects previously approved in the Capital Improvements Program and the General Fund budget.

On February 4, 2012, the City filed suit against Atlantic Realty Companies in Arlington County Circuit Court and asked the court to declare the economic development agreement between the City of Falls Church, the Economic Development Authority and Atlantic Realty Companies to be null and void because Atlantic had lost legal control over land that was part of the agreement and Atlantic was therefore unable to satisfy its obligations under the agreement. The City did not ask for any monetary damages, but simply requested a court order as described above.

Nevertheless, in early 2013, Atlantic began threatening to file a counterclaim against the City for tortious interference and other claims and threatened to ask for monetary damages against the City. Atlantic never actually filed a counterclaim and the case was settled and a final order of dismissal was entered on July 17, 2013. The City did not pay any monies to Atlantic or any other party as part of the settlement and dismissal of the case.

Note 19. Water Sale Agreement

In March 2012, the City filed a lawsuit in Fairfax County to strike down an ordinance that was adopted by the County limiting the City's ability to set its rates and increase its customer base. The ordinance required the City, as well as other suppliers in Fairfax County, to set its water rates no higher than the Fairfax Water rates unless Fairfax County has approved a higher rate. The ordinance also requires new developers in Fairfax County to obtain water service from Fairfax Water unless previously authorized otherwise. In May 2012, Fairfax Water removed the cases to Federal Court. This lawsuit and the application of the ordinance against the City were stayed as a result of the City's proposed water utility sale to Fairfax Water as discussed below.

On November 20, 2012, the City, Fairfax County and Fairfax Water, agreed, in principle, to sell the City water system to Fairfax Water.

The following are the principal terms of the sale:

- Fairfax Water will purchase the Falls Church water system assets for \$40 million. The city will retain debt and pension obligations of the water system of about \$30 million. The City's water utility assets, including three undeveloped land parcels located in Fairfax County totaling approximately 9 acres, will convey to Fairfax Water.

CITY OF FALLS CHURCH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 19. Water Sale Agreement (Continued)

- Approximately \$30 million in availability fees, currently in the water fund, designated to be used for the expansion of the water system, will convey to Fairfax Water.
- The City will retain liability for General Obligation bonds of approximately \$16.4 million and notes payable to the US Treasury of approximately \$2.1 million related to the Water Utility. The approximately \$1.3 million related to the District of Columbia is payable over time through a portion of water payments for water produced by the Washington Aqueduct. Upon the sale of the City's Water Utility to Fairfax Water, the City will no longer be the purchaser of water produced by the Washington Aqueduct. Fairfax Water will become the purchaser of water produced by the Washington Aqueduct and will be obligated to make water payments for costs of the Washington Aqueduct, including the payment of outstanding amounts payable to the District of Columbia.
- The City will convey approximately \$9.2 million for pension and OPEB obligations for active Water Utility employees to Fairfax Water, as well as compensated absences. Fairfax Water will place the pension and OPEB funds into a separate trust account to continue to provide for the benefits of the City's Water Utility employees who become employees of Fairfax Water upon the sale of the Water Utility under the same provisions as the City's Basic pension and OPEB plans.
- Fairfax Water will acquire the City's existing water supply contract with the Washington Aqueduct and become the retail water supplier for the City's existing customers both inside the City and in the City's current area of service in eastern Fairfax County.
- Fairfax Water will guarantee a uniform water rate for the customers in the City's service area to ensure that City residents are treated equally to the City's existing Fairfax County customers.
- Fairfax Water will offer guaranteed employment (terminable only for the cause) to all of the City's water system employees at comparable pay and benefits for a period of at least three years.
- Within two years from the sale closing, Fairfax Water will reduce the water rates to all customers in the City's service area to Fairfax Water's rates and will thereafter maintain a uniform rate for all customers, barring any extraordinary utility requirements.
- The City's boundary with Fairfax County will be adjusted to include within the City's corporate limits the three parcels on which the George Mason High School and Mary Ellen Henderson Middle School complex and athletic facilities are located, a connecting parcel at the intersection of Haycock Road and Route 7 (Broad Street), as well as several City-owned parcels near the intersection of Shreve Road and Gordons Road. The land transfer amounts to approximately 42 acres. Thirty percent of the schools parcels may be used for any purpose, while the remaining portion must be used for education-related purposes for fifty years.
- Fairfax Water will meet twice a year with the City of Falls Church to discuss water system issues, and will maintain a payment office in the City for payment of water bills.
- The City of Falls Church's pending lawsuit will be stayed until the agreement can be consummated, at which time the lawsuit will be dismissed. Fairfax County will not enforce its rate regulation Ordinance against the City while the case is stayed.

The three parties will complete their due diligence process and will then proceed to prepare and finalize the contract documents. In accordance with the City's charter, the question whether to approve the transaction will be subject to a referendum for voting in November 2013 in the City. If the parties complete their due diligence period, and the conditions of sale are satisfied, including approval by the citizens of the City, the sale will be consummated and the system conveyed to Fairfax Water in or around January 2014. The sale of the water utility will reduce the Primary Government's net assets by at least \$75 million, comprised mostly of net assets invested in capital assets.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 19. Water Sale Agreement (Continued)

The sale will provide the following benefits to the customers:

- Falls Church water system customer rates will be reduced to the same rates paid by Fairfax Water's existing customers within two years.
- The City of Falls Church's existing customers (inside and outside the City) will be charged the same water rates as Fairfax Water's customers in perpetuity, barring any extraordinary utility requirements.
- The settlement will end all pending litigation between the parties.
- Fairfax County residents' water rates will be set by Fairfax Water, whose members are appointed by the Fairfax County Board of Supervisors.
- The Washington Aqueduct water supply to Falls Church will be combined with Fairfax Water's two existing state-of-the art treatment plants, providing additional back-up supply and creating one of the most robust, integrated water systems in the country.
- The purchase of the City of Falls Church water system will not impact the water rates of current Fairfax Water customers.

The City has allocated the legal and related expenses with regards to the lawsuit against Fairfax County and the sale of the water system to the Water Fund because these expenses are incurred to ensure the continued safe and reliable operation of the water system and the sale of water at a reasonable price.

Note 20. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 20. New Accounting Standards (Continued)

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2013

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			Unfunded			
			Actuarial			
			Accrued			
			Liability			
			(UAAL)			
Actuarial	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
Valuation Date	Value of Assets	Accrued	Actuarial	Ratio	Payroll	Percentage of
		Liability (AAL)	Liability (UAAL)			Covered Payroll
VIRGINIA RETIREMENT SYSTEM						
A. City Constitutional Officers:						
June 30, 2010	\$ 3,639,494	\$ 3,300,658	\$ (338,836)	110.27%	\$ 1,077,970	(31.43%)
June 30, 2011	\$ 3,720,251	\$ 3,472,680	\$ (247,571)	107.13%	\$ 1,080,248	(22.92%)
June 30, 2012	\$ 3,687,614	\$ 3,525,916	\$ (161,698)	104.59%	\$ 1,019,807	(15.86%)
CITY PENSION PLANS						
A. Basic:						
July 1, 2010	\$ 61,080,226	\$ 67,471,940	\$ 6,391,714	90.53%	\$ 15,227,636	41.97%
July 1, 2011	\$ 62,570,245	\$ 67,754,716	\$ 5,184,471	92.35%	\$ 14,569,918	35.58%
July 1, 2012	\$ 63,636,116	\$ 70,816,837	\$ 7,180,721	89.86%	\$ 14,876,734	48.27%
B. Police:						
July 1, 2010	\$ 16,935,423	\$ 18,296,910	\$ 1,361,487	92.56%	\$ 2,192,654	62.09%
July 1, 2011	\$ 17,163,421	\$ 19,049,297	\$ 1,885,876	90.10%	\$ 2,099,597	89.82%
July 1, 2012	\$ 17,414,567	\$ 19,849,795	\$ 2,435,228	87.73%	\$ 2,220,510	109.67%
OTHER POST-EMPLOYMENT BENEFITS						
A. City:						
June 30, 2008	\$ 1,013,000	\$ 10,417,000	\$ 9,404,000	9.72%	n/a	n/a
June 30, 2010	\$ 1,795,000	\$ 11,456,000	\$ 9,661,000	15.67%	n/a	n/a
June 30, 2012	\$ 2,384,000	\$ 11,124,000	\$ 8,740,000	21.43%	n/a	n/a
B. School Board:						
June 30, 2008	\$ 610,000	\$ 6,632,000	\$ 6,022,000	9.20%	n/a	n/a
June 30, 2010	\$ 1,270,000	\$ 6,040,000	\$ 4,770,000	21.03%	n/a	n/a
June 30, 2012	\$ 2,249,000	\$ 5,273,000	\$ 3,024,000	42.65%	n/a	n/a

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL BY DEPARTMENT
GENERAL FUND
Year Ended June 30, 2013**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 45,230,500	\$ 44,297,500	\$ 46,405,519	\$ 2,108,019
Other local taxes	13,154,600	13,154,600	14,068,000	913,400
Permits, privilege fees, and regulatory licenses	543,210	693,210	916,677	223,467
Fines and forfeitures	888,600	888,600	672,757	(215,843)
Use of money and property	69,000	69,000	140,748	71,748
Charges for services	2,746,772	2,846,772	3,107,315	260,543
Miscellaneous	55,000	114,500	265,161	150,661
Gifts and contributions	6,500	44,756	51,270	6,514
Recovered costs	448,000	505,000	509,488	4,488
Intergovernmental				
Commonwealth	3,820,449	4,978,290	5,000,472	22,182
Federal	471,073	993,189	584,231	(408,958)
Total revenues	67,433,704	68,585,417	71,721,638	3,136,221
EXPENDITURES				
Current:				
Clerk of Court	28,931	28,931	16,763	12,168
Commission of Revenue	688,225	688,225	701,701	(13,476)
Development services	1,895,623	1,945,623	1,559,565	386,058
Executive management	3,162,660	3,550,283	3,286,033	264,250
Finance	1,305,334	1,305,334	1,262,909	42,425
Human services	4,121,964	4,316,404	3,962,051	354,353
Legislative	671,663	1,276,663	805,686	470,977
Library services	1,864,270	1,896,270	1,886,912	9,358
Public safety	7,747,221	7,990,222	7,866,571	123,651
Public works	6,423,188	6,632,361	6,192,944	439,417
Recreation and parks	2,668,847	2,819,967	2,781,754	38,213
Registrar	286,689	286,689	237,727	48,962
Sheriff	1,516,561	1,549,373	1,604,985	(55,612)
Treasurer	572,679	572,679	452,695	119,984
Non-departmental	33,382,879	35,007,721	34,825,563	182,158
Total expenditures	66,336,734	69,866,745	67,443,859	2,422,886
Excess (deficiency) of revenues over expenditures	1,096,970	(1,281,328)	4,277,779	5,559,107
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	150,000	-
Transfers out	(667,076)	(2,033,076)	(2,033,076)	-
Total other financing sources (uses)	(517,076)	(1,883,076)	(1,883,076)	-
Net change in fund balance	\$ 579,894	\$ (3,164,404)	\$ 2,394,703	\$ 5,559,107

CITY OF FALLS CHURCH, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

Note 1. The State of Virginia requires all local governments prepare, approve, adopt and execute an annual budget. The budgeting process is based on estimates of revenues and expenditures. The City budgets are prepared on a modified-accrual basis of accounting in accordance with generally accepted accounting principles.

The City maintains budgetary controls to ensure compliance with legal provisions in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and thus the supplemental budget to actual comparison is presented at this level. Amounts that do not fall under departmental control are categorized as nondepartmental even though they may relate to a particular function.

OTHER SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

Basic Pension Fund

To account for the assets held in trust by the City for the employees and beneficiaries of the defined benefit basic pension plan

Police Pension Fund

To account for the assets held in trust by the City for the employees and beneficiaries of the defined benefit police pension plan.

Other Post-Employment Benefits Fund

To account for the costs associated with providing healthcare benefits to current and future eligible retirees of the City.

School Board Other Post-Employment Benefits Fund

To account for the costs associated with providing healthcare benefits to current and future eligible retirees of the School Board.

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
June 30, 2013

	<u>City</u>		<u>Other Post- Employment Benefits</u>	<u>School Board Other Post- Employment Benefits</u>	
	<u>Basic Plan</u>	<u>Police Plan</u>			<u>Totals</u>
ASSETS					
Cash and cash equivalents	\$ 1,487,199	\$ 471,177	\$ 658,160	\$ 576,482	\$ 3,193,018
Investments:					
Domestic equity securities	44,194,063	12,291,198	1,097,468	961,272	58,544,001
Domestic fixed income securities	10,428,754	2,819,015	868,244	760,495	14,876,508
International equity securities	13,890,456	3,836,396	588,127	515,140	18,830,119
Real estate investment trust	2,569,102	675,835	62,595	54,827	3,362,359
Total investments	71,082,375	19,622,444	2,616,434	2,291,734	95,612,987
Contributions receivable:					
Employer	72,239	20,803	-	-	93,042
Employee	30,455	6,124	-	-	36,579
Total contributions receivable	102,694	26,927	-	-	129,621
Interest and dividends receivable	21,036	6,554	739	648	28,977
Total assets	72,693,304	20,127,102	3,275,333	2,868,864	98,964,603
LIABILITIES					
Accounts payable	4,487	1,179	-	-	5,666
Due to general fund	489,503	147,203	451,834	131,340	1,219,880
Total liabilities	493,990	148,382	451,834	131,340	1,225,546
NET POSITION					
Held in trust for:					
Pension benefits	72,199,314	19,978,720	-	-	92,178,034
Other post-employment benefits	-	-	2,823,499	2,737,524	5,561,023
Total net position	\$ 72,199,314	\$ 19,978,720	\$ 2,823,499	\$ 2,737,524	\$ 97,739,057

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2013

	<u>City</u>		<u>Other Post-</u>	<u>School Board</u>	
	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Employment</u>	<u>Other Post-</u>	
			<u>Benefits</u>	<u>Employment</u>	<u>Total</u>
				<u>Benefits</u>	
ADDITIONS					
Employer contributions	\$ 1,885,567	\$ 554,257	\$ 656,936	\$ 420,000	\$ 3,516,760
Employee contributions	839,280	163,156	-	-	1,002,436
Investment earnings:					
Interest	9,104	37,766	1,526	1,283	49,679
Dividends	1,140,294	313,440	58,119	48,953	1,560,806
Net increase in fair value of investments	9,002,494	2,557,397	166,177	139,667	11,865,735
Total investment earnings	10,151,892	2,908,603	225,822	189,903	13,476,220
Less investment expense	(399,922)	(112,894)	(10,549)	(8,866)	(532,231)
Net investment earnings	9,751,970	2,795,709	215,273	181,037	12,943,989
Total additions	12,476,817	3,513,122	872,209	601,037	17,463,185
DEDUCTIONS					
Benefits	3,449,443	866,094	421,738	107,020	4,844,295
Administration	64,982	14,596	11,246	5,471	96,295
Total deductions	3,514,425	880,690	432,984	112,491	4,940,590
Change in net position	8,962,392	2,632,432	439,225	488,546	12,522,595
NET POSITION AT JULY 1	63,236,922	17,346,288	2,384,274	2,248,978	85,216,462
NET POSITION AT JUNE 30	<u>\$ 72,199,314</u>	<u>\$ 19,978,720</u>	<u>\$ 2,823,499</u>	<u>\$ 2,737,524</u>	<u>97,739,057</u>

AGENCY FUNDS

Fairfax County Water Authority Fund

To account for monies received and disbursed on behalf of the Authority for sewer services.

Northern Virginia Criminal Justice Training Academy Fund

To account for monies received and disbursed on behalf of the Academy.

SCHEDULE 3**CITY OF FALLS CHURCH, VIRGINIA**

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2013

	Fairfax County Water Authority	Northern Virginia Criminal Justice Academy	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 3,328,085	\$ 3,328,085
Other receivables	2,483,543	-	2,483,543
Due from general fund	1,925,599	-	1,925,599
Total assets	<u>\$ 4,409,142</u>	<u>\$ 3,328,085</u>	<u>\$ 7,737,227</u>
LIABILITIES			
Due to other governments	\$ 4,409,142	\$ 3,297,409	\$ 7,706,551
Due to general fund	-	30,676	30,676
Total liabilities	<u>\$ 4,409,142</u>	<u>\$ 3,328,085</u>	<u>\$ 7,737,227</u>

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2013

	Balances July 1, 2012	Additions	Deductions	Balances June 30, 2013
Fairfax County Water Authority				
ASSETS				
Accounts receivables	\$ 2,253,173	\$ 21,692,400	\$ 21,462,030	\$ 2,483,543
Due from general fund	1,910,910	21,476,719	21,462,030	1,925,599
Total assets	<u>\$ 4,164,083</u>	<u>\$ 43,169,119</u>	<u>\$ 42,924,060</u>	<u>\$ 4,409,142</u>
LIABILITIES				
Due to other governments	\$ 4,164,083	\$ 43,169,119	\$ 42,924,060	\$ 4,409,142
Total liabilities	<u>\$ 4,164,083</u>	<u>\$ 43,169,119</u>	<u>\$ 42,924,060</u>	<u>\$ 4,409,142</u>
Northern Virginia Criminal Justice Academy				
ASSETS				
Cash and cash equivalents	\$ 3,372,880	\$ 1,717,614	\$ 1,762,409	\$ 3,328,085
Total assets	<u>\$ 3,372,880</u>	<u>\$ 1,717,614</u>	<u>\$ 1,762,409</u>	<u>\$ 3,328,085</u>
LIABILITIES				
Due to other governments	\$ 3,346,021	\$ 3,961,808	\$ 4,010,420	\$ 3,297,409
Due to general fund	26,859	5,731,205	5,727,388	30,676
Total liabilities	<u>\$ 3,372,880</u>	<u>\$ 9,693,013</u>	<u>\$ 9,737,808</u>	<u>\$ 3,328,085</u>
Totals				
ASSETS				
Cash and cash equivalents	\$ 3,372,880	\$ 1,717,614	\$ 1,762,409	\$ 3,328,085
Other receivables	2,253,173	21,692,400	21,462,030	2,483,543
Due from general fund	1,910,910	21,476,719	21,462,030	1,925,599
Total assets	<u>\$ 7,536,963</u>	<u>\$ 44,886,733</u>	<u>\$ 44,686,469</u>	<u>\$ 7,737,227</u>
LIABILITIES				
Due to other governments	\$ 7,510,104	\$ 47,130,927	\$ 46,934,480	\$ 7,706,551
Due to general fund	26,859	5,731,205	5,727,388	30,676
Total liabilities	<u>\$ 7,536,963</u>	<u>\$ 52,862,132</u>	<u>\$ 52,661,868</u>	<u>\$ 7,737,227</u>

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Major Governmental Funds

School Operating Fund

The School Operating Fund is a special revenue fund that accounts for the operations of the City's school system. Financing is provided by the State and Federal Governments as well as contributions from the general fund.

School Community Service Fund

The School Community Service Fund is a special revenue fund that accounts for transactions related to donations, daycare operations, and rental income for the school system.

Nonmajor Governmental Funds

School Food Service Fund

The School Food Service Fund is a special revenue fund that accounts for the City's school lunch program. Financing is provided from lunch sales and state and federal reimbursements.

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	<u>Major</u>		<u>Non-major</u>	
	<u>School</u>	<u>School</u>	<u>School</u>	<u>Total</u>
	<u>Operating</u>	<u>Community</u>	<u>Food</u>	<u>Governmental</u>
		<u>Service</u>	<u>Service</u>	<u>Funds</u>
ASSETS				
Cash and investments	\$ 2,336,731	\$ 887,534	\$ 268,461	\$ 3,492,726
Receivables, net	22,011	5,975	2,920	30,906
Due from fiduciary funds	131,340	-	-	131,340
Due from primary government	3,103,610	12,534	-	3,116,144
Due from other governments	354,410	-	4,468	358,878
Prepays	130,638	12,930	-	143,568
Total assets	<u>\$ 6,078,740</u>	<u>\$ 918,973</u>	<u>\$ 275,849</u>	<u>\$ 7,273,562</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 5,112,406	\$ 95,965	\$ 70,318	\$ 5,278,689
Total liabilities	<u>5,112,406</u>	<u>95,965</u>	<u>70,318</u>	<u>5,278,689</u>
FUND BALANCES				
Nonspendable:				
Prepays	130,638	12,930	-	143,568
Assigned:				
Education	835,696	810,078	205,531	1,851,305
Total fund balances	<u>966,334</u>	<u>823,008</u>	<u>205,531</u>	<u>1,994,873</u>
Total liabilities and fund balances	<u>\$ 6,078,740</u>	<u>\$ 918,973</u>	<u>\$ 275,849</u>	<u>\$ 7,273,562</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balance - Governmental Funds \$ 1,994,873

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.

Nondepreciable	\$ 1,273,354	
Depreciable, net	<u>2,693,675</u>	
		3,967,029

Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities on the Statement of Net Position.

859,000

Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditures. The difference is included in other liabilities in the governmental activities of the Statement of Net Position.

(128,109)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Termination benefits	(3,418,000)	
Compensated absences	(1,112,462)	
Capital lease payable	<u>(87,222)</u>	
		<u>(4,617,684)</u>

Total Net Position - Governmental Activities \$ 2,075,109

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	<u>Major</u>		<u>Non-major</u>	
	<u>School</u>	<u>School</u>	<u>School</u>	<u>Total</u>
	<u>Operating</u>	<u>Community</u>	<u>Food</u>	<u>Governmental</u>
		<u>Service</u>	<u>Service</u>	<u>Funds</u>
REVENUES				
Revenue from use of money and property	\$ 28,689	\$ 64,675	\$ -	\$ 93,364
Charges for services	276,785	1,090,938	599,906	1,967,629
Miscellaneous	157,728	68,898	-	226,626
Intergovernmental:				
Federal	518,762	-	136,482	655,244
Commonwealth	5,238,903	-	-	5,238,903
Payments from City	29,975,200	428,600	-	30,403,800
	<u>36,196,067</u>	<u>1,653,111</u>	<u>736,388</u>	<u>38,585,566</u>
Total revenues				
EXPENDITURES				
Current:				
Education	35,925,497	1,354,122	790,087	38,069,706
Capital outlay	1,832,785	55,077	-	1,887,862
Debt service:				
Principal retirement	66,516	-	-	66,516
Interest and fiscal charges	14,662	-	-	14,662
	<u>37,839,460</u>	<u>1,409,199</u>	<u>790,087</u>	<u>40,038,746</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(1,643,393)</u>	<u>243,912</u>	<u>(53,699)</u>	<u>(1,453,180)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	277,000	-	30,000	307,000
Transfers out	-	(307,000)	-	(307,000)
	<u>277,000</u>	<u>(307,000)</u>	<u>30,000</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balance	(1,366,393)	(63,088)	(23,699)	(1,453,180)
FUND BALANCE AT JULY 1	<u>2,332,727</u>	<u>886,096</u>	<u>229,230</u>	<u>3,448,053</u>
FUND BALANCE AT JUNE 30	<u>\$ 966,334</u>	<u>\$ 823,008</u>	<u>\$ 205,531</u>	<u>\$ 1,994,873</u>

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Net Change in Fund Balance - Governmental Funds

\$ (1,453,180)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 1,043,256	
Depreciation expense	<u>(317,639)</u>	
		725,617

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold.

(26,251)

Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Position.

52,000

Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure.

(16,159)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in termination benefits	\$ 215,000	
Change in compensated absences	<u>(29,467)</u>	
		185,533

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net position.

66,516**Change in Net Position - Governmental Activities**\$ (465,924)

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL OPERATING FUND
Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 30,000	\$ 30,000	\$ 28,689	\$ (1,311)
Charges for services	334,700	334,700	276,785	(57,915)
Miscellaneous	350,000	350,000	157,728	(192,272)
Intergovernmental:				
Federal	503,700	503,700	518,762	15,062
Commonwealth	5,230,800	5,230,800	5,238,903	8,103
Primary government	29,789,200	29,828,200	29,975,200	147,000
Total revenues	36,238,400	36,277,400	36,196,067	(81,333)
EXPENDITURES				
Current:				
Education	36,873,560	36,901,807	35,925,497	976,310
Capital outlay	1,144,840	1,987,547	1,832,785	154,762
Debt service:				
Principal retirement	-	-	66,516	(66,516)
Interest and fiscal charges	-	-	14,662	(14,662)
Total expenditures	38,018,400	38,889,354	37,839,460	1,049,894
Excess (deficiency) of revenues over expenditures	(1,780,000)	(2,611,954)	(1,643,393)	968,561
OTHER FINANCING SOURCES				
Transfers in	330,000	303,000	277,000	(26,000)
Total other financing sources	330,000	303,000	277,000	(26,000)
Net change in fund balances	\$ (1,450,000)	\$ (2,308,954)	\$ (1,366,393)	\$ 942,561

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL COMMUNITY SERVICE FUND
Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 67,300	\$ 67,300	\$ 64,675	\$ (2,625)
Charges for services	1,014,860	1,014,860	1,090,938	76,078
Miscellaneous	83,500	83,500	68,898	(14,602)
Intergovernmental:				
Primary government	428,600	428,600	428,600	-
Total revenues	1,594,260	1,594,260	1,653,111	58,851
EXPENDITURES				
Current:				
Education	1,482,260	1,495,486	1,354,122	141,364
Capital Outlay	133,500	140,324	55,077	85,247
Total expenditures	1,615,760	1,635,810	1,409,199	226,611
Excess (deficiency) of revenues over expenditures	(21,500)	(41,550)	243,912	285,462
OTHER FINANCING USES				
Transfers out	(307,000)	(307,000)	(307,000)	-
Total other financing uses	(307,000)	(307,000)	(307,000)	-
Net change in fund balances	\$ (328,500)	\$ (348,550)	\$ (63,088)	\$ 285,462

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2013

	Thomas Jefferson Elementary	Mt. Daniel Elementary	Mary Ellen Henderson Middle School	George Mason High School	Total
ASSETS					
Cash and cash equivalents	<u>\$ 26,236</u>	<u>\$ 28,777</u>	<u>\$ 31,701</u>	<u>\$ 336,890</u>	<u>\$ 423,604</u>
Total assets	<u><u>\$ 26,236</u></u>	<u><u>\$ 28,777</u></u>	<u><u>\$ 31,701</u></u>	<u><u>\$ 336,890</u></u>	<u><u>\$ 423,604</u></u>
LIABILITIES					
Amounts held for others	<u>\$ 26,236</u>	<u>\$ 28,777</u>	<u>\$ 31,701</u>	<u>\$ 336,890</u>	<u>\$ 423,604</u>
Total liabilities	<u><u>\$ 26,236</u></u>	<u><u>\$ 28,777</u></u>	<u><u>\$ 31,701</u></u>	<u><u>\$ 336,890</u></u>	<u><u>\$ 423,604</u></u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2013

	<u>Balances July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2013</u>
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 26,000	\$ 27,147	\$ 26,911	\$ 26,236
Total assets	<u>\$ 26,000</u>	<u>\$ 27,147</u>	<u>\$ 26,911</u>	<u>\$ 26,236</u>
Liabilities				
Amounts held for others	\$ 26,000	\$ 27,147	\$ 26,911	\$ 26,236
Total liabilities	<u>\$ 26,000</u>	<u>\$ 27,147</u>	<u>\$ 26,911</u>	<u>\$ 26,236</u>
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 32,844	\$ 32,127	\$ 36,194	\$ 28,777
Total assets	<u>\$ 32,844</u>	<u>\$ 32,127</u>	<u>\$ 36,194</u>	<u>\$ 28,777</u>
Liabilities				
Amounts held for others	\$ 32,844	\$ 32,127	\$ 36,194	\$ 28,777
Total liabilities	<u>\$ 32,844</u>	<u>\$ 32,127</u>	<u>\$ 36,194</u>	<u>\$ 28,777</u>
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	\$ 43,354	\$ 72,625	\$ 84,278	\$ 31,701
Total assets	<u>\$ 43,354</u>	<u>\$ 72,625</u>	<u>\$ 84,278</u>	<u>\$ 31,701</u>
Liabilities				
Amounts held for others	\$ 43,354	\$ 72,625	\$ 84,278	\$ 31,701
Total liabilities	<u>\$ 43,354</u>	<u>\$ 72,625</u>	<u>\$ 84,278</u>	<u>\$ 31,701</u>
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 318,829	\$ 430,536	\$ 412,475	\$ 336,890
Total assets	<u>\$ 318,829</u>	<u>\$ 430,536</u>	<u>\$ 412,475</u>	<u>\$ 336,890</u>
Liabilities				
Amounts held for others	\$ 318,829	\$ 430,536	\$ 412,475	\$ 336,890
Total liabilities	<u>\$ 318,829</u>	<u>\$ 430,536</u>	<u>\$ 412,475</u>	<u>\$ 336,890</u>
TOTAL				
Assets				
Cash and cash equivalents	\$ 421,027	\$ 562,435	\$ 559,858	\$ 423,604
Total assets	<u>\$ 421,027</u>	<u>\$ 562,435</u>	<u>\$ 559,858</u>	<u>\$ 423,604</u>
Liabilities				
Amounts held for others	\$ 421,027	\$ 562,435	\$ 559,858	\$ 423,604
Total liabilities	<u>\$ 421,027</u>	<u>\$ 562,435</u>	<u>\$ 559,858</u>	<u>\$ 423,604</u>

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DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Economic Development Authority Fund

To account for the promotion of economic development of the City. All activities necessary to provide such services are included in the fund.

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2013

ASSETS

Cash and investments	\$ 119,236
Due from primary government	<u>250,000</u>
Total assets	<u>369,236</u>

LIABILITIES

Accounts payable and other liabilities	<u>250,000</u>
Total liabilities	<u>250,000</u>

FUND BALANCE

Assigned	<u>119,236</u>
Total fund balance	<u>119,236</u>
Total liabilities and fund balance	<u><u>\$ 369,236</u></u>

Adjustments for the Statement of Net Position (Exhibit 1):

Total fund balance	\$ 119,236
---------------------------	------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

517,255

Total Net Position - Governmental Activities	<u><u>\$ 636,491</u></u>
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CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
 Year Ended June 30, 2013

REVENUES

Use of money and property	\$ 127
Miscellaneous	<u>47,105</u>
Total revenue	<u>47,232</u>

EXPENDITURES

Current:

Economic development	<u>25,442</u>
Total expenditures	<u>25,442</u>
Net change in fund balance	21,790

FUND BALANCE AT JULY 1

97,446

FUND BALANCE AT JUNE 30

\$ 119,236

There are no differences between the amounts reported above as the change in fund balance and the amounts reported as change in net position on the Statement of Activities (Exhibit 2).

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STATISTICAL SECTION

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STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<u>Contents</u>	<u>Pages</u>
<i>Financial Trends – Tables 1 – 4</i>	
These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time.	83-87
<i>Revenue Capacity – Tables 5 – 8</i>	
These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes.	88-91
<i>Debt Capacity – Tables 9 – 11</i>	
These schedules contain trend information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	92-94
<i>Demographic and Economic Information – Tables 12 – 13</i>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place	95-96
<i>Operating Information – Tables 14 – 16</i>	
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and activities it performs	97-100

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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TABLE 1

CITY OF FALLS CHURCH, VIRGINIA

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(accrual basis of accounting)

(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities										
Net investment in capital assets	\$ 39,248,950	\$ 31,282,109	\$ 30,402,986	\$ 28,758,627	\$ 27,502,320	\$ 25,612,690	\$ 23,379,076	\$ 18,918,420	\$ 19,354,251	\$ 16,988,211
Restricted	390,112	110,929	152,686	70,153	-	-	-	-	-	-
Unrestricted	12,666,836	15,584,623	8,624,721	4,027,491	9,312,853	14,477,291	16,859,105	19,001,599	15,126,942	13,159,880
Total governmental activities net position	<u>\$ 52,305,898</u>	<u>\$ 46,977,661</u>	<u>\$ 39,180,393</u>	<u>\$ 32,856,271</u>	<u>\$ 36,815,173</u>	<u>\$ 40,089,981</u>	<u>\$ 40,238,181</u>	<u>\$ 37,920,019</u>	<u>\$ 34,481,193</u>	<u>\$ 30,148,091</u>
Business-type activities										
Net investment in capital assets	\$ 75,135,994	\$ 71,450,170	\$ 67,031,493	\$ 60,677,853	\$ 60,392,743	\$ 51,078,151	\$ 50,471,649	\$ 50,534,282	\$ 49,170,424	\$ 47,421,241
Unrestricted	35,310,238	30,167,055	29,197,725	28,109,384	21,437,246	11,185,756	26,947,631	21,757,554	22,433,855	23,376,153
Total business-type activities net position	<u>\$ 110,446,232</u>	<u>\$ 101,617,225</u>	<u>\$ 96,229,218</u>	<u>\$ 88,787,237</u>	<u>\$ 81,829,989</u>	<u>\$ 62,263,907</u>	<u>\$ 77,419,280</u>	<u>\$ 72,291,836</u>	<u>\$ 71,604,279</u>	<u>\$ 70,797,394</u>
Primary government										
Net investment in capital assets	\$ 114,384,944	\$ 102,732,279	\$ 97,434,479	\$ 89,436,480	\$ 87,895,063	\$ 76,690,841	\$ 73,850,725	\$ 69,452,702	\$ 68,524,675	\$ 64,409,452
Restricted	390,112	110,929	152,686	70,153	-	-	-	-	-	-
Unrestricted	47,977,074	45,751,678	37,822,446	32,136,875	30,750,099	25,663,047	43,806,736	40,759,153	37,560,797	36,536,033
Total primary government net position	<u>\$ 162,752,130</u>	<u>\$ 148,594,886</u>	<u>\$ 135,409,611</u>	<u>\$ 121,643,508</u>	<u>\$ 118,645,162</u>	<u>\$ 102,353,888</u>	<u>\$ 117,657,461</u>	<u>\$ 110,211,855</u>	<u>\$ 106,085,472</u>	<u>\$ 100,945,485</u>

Notes:

The City restated net position as of June 30, 3009, 2010, and 2013. The restatements are not included in the prior data.

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA
CHANGES IN NET POSITION BY COMPONENT

Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental activities										
General government	\$ 5,367,731	\$ 4,788,719	\$ 4,493,498	\$ 4,964,439	\$ 5,117,721	\$ 5,482,600	\$ 4,786,763	\$ 4,129,020	\$ 3,935,683	\$ 3,883,989
Judicial administration	1,873,922	1,610,517	1,531,960	1,517,515	1,522,844	1,398,558	1,291,039	1,245,977	1,156,203	1,065,276
Public safety	9,788,047	9,434,025	8,954,827	9,363,766	8,809,226	8,195,664	7,982,071	6,995,489	7,017,277	6,638,269
Public works	6,285,870	5,336,869	5,920,960	5,013,021	5,639,536	6,489,819	5,288,565	6,332,313	4,127,607	4,150,055
Health and welfare	2,218,700	2,003,105	2,105,699	2,201,229	2,365,068	2,626,378	3,316,750	3,018,356	2,740,167	2,784,179
Education and payments to schools	32,035,481	29,064,131	29,276,052	30,768,947	31,371,993	30,878,770	29,072,459	26,379,915	23,400,685	21,177,645
Parks, recreation, and cultural	4,603,123	4,392,338	4,449,481	4,486,619	4,745,375	3,862,621	3,598,289	3,306,719	3,158,648	2,989,439
Community development	3,307,046	1,745,896	1,439,852	1,435,053	2,379,992	2,231,172	1,700,846	1,132,733	1,163,151	841,264
Economic development	314,171	323,036	322,405	351,233	395,505	385,564	359,538	373,963	294,554	290,087
Interest	1,116,712	1,278,045	1,410,283	1,555,466	1,661,998	1,713,885	1,746,086	1,661,368	2,220,727	1,589,430
Total governmental activities	66,910,803	59,976,681	59,905,017	61,657,288	64,009,258	63,265,031	59,142,406	54,575,853	49,214,702	45,409,633
Business-type activities										
Water	20,930,432	19,271,724	17,690,104	17,240,177	17,509,332	31,372,591	17,195,584	16,289,183	14,878,376	14,442,756
Sewer	2,546,447	2,887,321	1,937,681	2,078,222	1,989,719	5,381,002	2,781,966	2,088,637	2,028,151	2,586,301
Total business-type activities expense	23,476,879	22,159,045	19,627,785	19,318,399	19,499,051	36,753,593	19,977,550	18,377,820	16,906,527	17,029,057
Total primary government expenses	90,387,682	82,135,726	79,532,802	80,975,687	83,508,309	100,018,624	79,119,956	72,953,673	66,121,229	62,438,690
Program revenues										
Governmental activities										
Charges for services										
Parks and recreation	1,895,540	1,784,380	1,822,851	1,565,668	1,398,036	890,329	851,479	806,936	718,591	677,807
Judicial administration	990,687	1,106,413	1,189,447	1,111,368	1,039,920	985,851	702,289	704,344	672,226	670,874
Public safety	1,158,033	1,054,488	640,353	637,012	510,075	606,394	970,613	773,476	1,414,384	1,007,262
Other activities	1,050,301	957,930	790,385	492,204	410,406	478,329	376,376	362,644	403,120	348,563
Operating grants and contributions	3,470,652	2,133,526	2,151,480	2,249,881	3,545,362	3,538,063	3,661,138	3,099,444	2,806,914	3,045,368
Capital grants and contributions	569,648	807,771	560,269	592,880	1,156	100,534	138,488	-	-	-
Total governmental activities program revenues	9,134,861	7,844,508	7,154,785	6,649,013	6,904,955	6,599,500	6,700,383	5,746,844	6,015,235	5,749,874
Business-type activities										
Charges for services										
Water	24,363,306	22,770,417	21,710,937	19,846,413	21,366,915	20,289,970	22,321,609	18,936,968	17,150,392	13,317,162
Sewer	3,312,868	3,073,519	2,641,877	2,638,970	2,755,257	2,504,749	3,602,944	2,581,621	2,731,556	2,009,726
Operating grants and contributions	-	-	-	-	-	-	25,843,936	-	-	115,000
Capital grants and contributions	4,255,493	1,496,722	2,717,914	284,330	236,655	479,911	839,993	1,532,935	1,907,477	130,691
Total business-type activities program revenues	31,931,667	27,340,658	27,070,728	22,769,713	24,358,827	23,274,630	52,608,482	23,051,524	21,789,425	15,572,579
Total primary government program revenues	41,066,528	35,185,166	34,225,513	29,418,726	31,263,782	29,874,130	59,308,865	28,798,368	27,804,660	21,322,453

(Continued)

TABLE 2
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN NET POSITION BY COMPONENT

Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net (expense) revenue										
Governmental activities	\$ (57,775,942)	\$ (52,132,173)	\$ (52,750,232)	\$ (55,008,275)	\$ (57,104,303)	\$ (56,665,531)	\$ (52,442,023)	\$ (48,829,009)	\$ (43,199,467)	\$ (39,659,759)
Business-type activities	8,454,788	5,181,613	7,442,943	3,451,314	4,859,776	(13,478,963)	32,630,932	4,673,704	4,882,898	(1,456,478)
Total primary government net expense	(49,321,154)	(46,950,560)	(45,307,289)	(51,556,961)	(52,244,527)	(70,144,494)	(19,811,091)	(44,155,305)	(38,316,569)	(41,116,237)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
General property taxes	42,216,103	39,381,606	38,879,467	36,000,253	34,828,753	33,878,025	32,844,128	29,624,514	26,248,419	22,736,340
Personal property	4,258,749	4,156,728	3,678,885	3,381,964	3,539,667	3,287,380	3,303,768	3,327,582	3,137,750	2,700,860
Business licenses, based on gross receipts	3,374,891	3,259,871	3,284,068	2,698,584	2,819,183	3,138,550	3,053,349	2,936,648	2,913,022	2,296,618
Local sales and use	3,737,117	3,899,279	3,619,912	3,035,145	2,042,219	3,962,354	4,222,823	4,263,902	3,828,328	3,492,983
Consumer's utility	2,142,459	2,102,986	2,180,644	2,063,222	2,084,240	2,143,666	2,018,214	1,595,837	1,645,515	1,655,968
Motor vehicle decals	313,245	319,335	238,177	226,723	226,978	208,790	216,892	202,229	223,394	200,940
Real estate recordation taxes	602,651	475,057	371,514	369,453	446,906	712,026	301,751	213,868	232,243	203,335
Occupancy, tobacco, and other	3,867,148	3,833,289	3,789,771	3,298,074	3,139,911	3,468,099	2,754,408	3,150,953	2,454,441	2,305,965
Intergovernmental, non-categorical aid	2,020,878	2,020,878	2,020,878	2,020,878	2,020,878	2,038,599	1,983,445	1,535,838	1,495,015	2,211,120
Use of money and property	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561	546,512	122,565
Miscellaneous	279,265	229,637	110,572	72,104	55,159	137,001	150,420	71,029	43,674	141,942
Special item-gain on sales of capital assets	-	-	735,367	-	-	-	-	-	-	-
Transfers	150,000	150,000	89,604	(2,202,601)	2,404,041	3,076,174	3,055,121	4,775,874	4,764,256	4,625,874
Total governmental activities	63,104,179	59,934,493	59,074,354	51,049,330	53,691,363	56,517,331	54,760,185	52,267,835	47,532,569	42,694,510
Business-type activities:										
Use of money and property	319,150	281,920	213,217	63,385	356,324	1,393,656	1,361,932	759,782	650,041	377,777
Miscellaneous	59,428	74,474	125,305	(28,339)	204,136	6,108	33,637	29,945	38,202	30,651
Insurance recovery of legal costs, net	-	-	-	1,025,632	-	-	-	-	-	-
Transfers	(150,000)	(150,000)	(89,604)	2,202,601	(2,404,041)	(3,076,174)	(3,055,121)	(4,775,874)	(4,764,256)	(4,713,374)
Total business-type activities	228,578	206,394	248,918	3,263,279	(1,843,581)	(1,676,410)	(1,659,552)	(3,986,147)	(4,076,013)	(4,304,946)
Total primary government	63,332,757	60,140,887	59,323,272	54,312,609	51,847,782	54,840,921	53,100,633	48,281,688	43,456,556	38,389,564
Changes in Net Position										
Governmental activities	5,328,237	7,802,320	6,324,122	(3,958,945)	(3,412,940)	(148,200)	2,318,162	3,438,826	4,333,102	3,034,751
Business-type activities	8,683,366	5,388,007	7,691,861	6,714,593	3,016,195	(15,155,373)	30,971,380	687,557	806,885	(5,761,424)
Total primary government	14,011,603	13,190,327	14,015,983	2,755,648	(396,745)	(15,303,573)	33,289,542	4,126,383	5,139,987	(2,726,673)

Notes:

The City restated net position as of June 30, 2009, 2010, and 2013. The restatements are not included in prior data.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA

FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(unaudited)

	<u>2013</u>	<u>2012</u>	<u>2011</u>				
Post-GASB 54 implementation:							
General Fund							
Nonspendable	\$ 268,619	\$ 280,819	\$ 251,358				
Restricted	159,715	110,929	247,364				
Committed	1,418,300	-	-				
Assigned	595,253	760,861	380,682				
Unassigned	14,821,921	13,716,496	7,041,658				
Total general fund	<u>\$ 17,263,808</u>	<u>\$ 14,869,105</u>	<u>\$ 7,921,062</u>				
Capital Projects Fund							
Restricted	\$ 1,884,972	\$ 7,355,210	\$ 134,686				
Committed	967,200	450,003	1,401,402				
Total capital projects fund	<u>\$ 2,852,172</u>	<u>\$ 7,805,213</u>	<u>\$ 1,536,088</u>				
Pre-GASB 54 implementation:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Fund							
Reserved	\$ 1,124,698	\$ 1,265,850	\$ 1,494,647	\$ 1,531,626	\$ 1,024,193	\$ 1,161,401	\$ 1,397,945
Unreserved	2,674,638	2,894,988	9,830,681	12,666,003	15,129,189	12,631,956	11,821,263
Total general fund	<u>\$ 3,799,336</u>	<u>\$ 4,160,838</u>	<u>\$ 11,325,328</u>	<u>\$ 14,197,629</u>	<u>\$ 16,153,382</u>	<u>\$ 13,793,357</u>	<u>\$ 13,219,208</u>
All Other Governmental Funds							
Reserved	\$ 395,238	\$ 1,423,401	\$ 543,425	\$ 2,281,152	\$ 2,281,152	\$ 5,151,445	\$ 20,034,668
Unreserved:							
Designated:							
Capital projects fund	656,967	4,513,944	4,643,132	1,375,326	1,375,326	4,530,899	4,918,860
Special revenue fund	539,152	537,799	381,159	504,325	431,941	414,219	-
Total all other governmental funds	<u>\$ 1,591,357</u>	<u>\$ 6,475,144</u>	<u>\$ 5,567,716</u>	<u>\$ 4,160,803</u>	<u>\$ 4,088,419</u>	<u>\$ 10,096,563</u>	<u>\$ 24,953,528</u>

Note: In FY 2011, the City implemented GASB Statement No. 54.

TABLE 4

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
General property taxes	\$ 46,405,519	\$ 43,870,383	\$ 42,146,436	\$ 39,476,351	\$ 38,456,297	\$ 37,603,499	\$ 35,601,262	\$ 33,248,625	\$ 28,777,104	\$ 24,985,137
Other local taxes	14,068,000	13,868,919	13,379,038	11,610,183	10,759,416	13,621,231	12,554,667	12,350,831	11,284,301	10,130,055
Permits, fees, and licenses	916,677	634,184	404,899	511,285	322,639	440,771	757,587	442,556	479,042	361,371
Fines and forfeitures	672,757	763,353	727,990	610,267	481,319	482,961	344,063	649,377	1,302,463	996,688
Charges for services	3,107,315	2,844,768	2,837,487	2,528,088	2,387,814	1,869,435	1,655,668	1,423,258	1,292,015	1,265,181
Use of money and property	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561	546,512	122,565
Miscellaneous	265,161	204,908	117,019	150,691	65,129	108,705	591,414	62,800	148,820	111,457
Gifts and contributions	313,575	218,930	77,687	42,328	1,243,431	1,342,652	-	-	-	-
Recovered costs	509,488	540,765	461,219	1,869,125	1,429,477	1,341,695	1,469,148	2,012,726	2,236,692	2,184,999
Intergovernmental:										
Commonwealth	5,093,110	3,913,214	3,855,857	4,036,330	4,013,417	4,143,211	4,025,954	4,633,990	3,018,725	4,142,091
Federal	776,311	896,997	798,217	719,247	304,030	207,090	1,105,665	1,001,162	851,358	1,083,137
Total revenues	72,269,586	67,862,248	64,881,344	61,639,426	59,546,397	61,627,917	58,961,294	56,394,886	49,937,032	45,382,681
Expenditures										
General government	5,240,051	4,439,532	4,143,809	5,866,102	5,874,181	6,058,525	5,674,088	5,722,648	5,251,876	5,193,514
Judicial administration	1,820,027	1,594,048	1,486,558	1,457,627	1,459,252	1,352,188	1,230,303	1,205,050	1,094,018	1,025,090
Public safety	9,731,518	9,389,094	8,787,149	8,896,616	8,513,351	8,185,464	7,644,603	6,704,083	6,996,497	6,240,752
Public works	5,759,636	5,266,144	5,325,810	5,256,273	5,478,550	5,834,441	4,555,196	5,410,065	4,147,696	4,768,075
Health and welfare	2,263,633	1,992,565	2,121,788	2,229,111	2,371,178	2,608,446	3,143,233	3,021,934	2,719,107	2,760,756
Parks, recreation, and cultural	4,323,040	4,100,421	4,190,243	4,133,292	4,359,681	3,659,333	3,290,829	3,123,316	2,962,822	2,849,028
Community development	3,324,309	1,754,043	1,416,195	1,419,982	2,227,411	2,175,626	1,753,211	1,430,897	1,424,396	1,196,845
Education	30,426,504	27,685,031	27,874,069	29,347,120	29,670,612	29,567,369	27,636,683	25,076,471	22,930,601	20,702,332
Economic development	308,788	321,839	316,857	346,937	398,893	378,698	353,294	369,331	292,876	277,471
Capital outlay	7,533,141	1,197,634	931,504	1,021,914	2,398,084	2,590,974	4,141,088	9,612,382	19,091,875	6,394,602
Debt service:										
Principal retirement	3,155,583	2,426,259	3,649,375	3,651,127	3,776,678	3,547,623	3,396,430	3,350,886	2,135,828	1,907,025
Interest and fiscal charges	1,149,770	1,649,369	1,445,377	1,578,008	1,679,629	1,710,747	1,826,240	1,905,769	1,956,871	1,456,499
Total expenditures	75,036,000	61,815,979	61,688,734	65,204,109	68,207,500	67,669,434	64,645,198	66,932,832	71,004,463	54,771,989
Excess of revenues over (under) expenditures	(2,766,414)	6,046,269	3,192,610	(3,564,683)	(8,661,103)	(6,041,517)	(5,683,904)	(10,537,946)	(21,067,431)	(9,389,308)
Other Financing Sources (Uses)										
Premium on issuance of bonds	-	909,336	-	-	-	-	44,215	70,192	-	1,170,146
Payment to refunded bond escrow agent	-	(17,437,909)	-	-	-	-	(6,181,352)	-	(4,660,000)	(8,258,750)
Proceeds from borrowing	-	-	-	-	-	2,428,800	-	1,935,000	1,875,500	25,000,000
Proceeds from capital leases	-	-	-	-	-	6,550	-	72,950	39,250	442,728
Proceeds from sale of assets	-	-	784,243	521,995	-	-	-	-	-	-
Premium paid to refund bonds	-	-	-	-	-	-	-	-	(42,425)	-
Original issue discount	-	-	-	-	-	-	(24,351)	-	-	-
Issuance of debt	-	24,120,000	-	-	-	-	6,347,686	35,811	4,808,034	7,340,000
Transfers in	2,183,076	150,000	150,000	-	2,404,041	3,076,174	3,055,121	4,775,874	4,764,256	4,713,374
Transfers out	(2,033,076)	-	(60,396)	(2,202,601)	-	-	-	-	-	-
Contributions to OPEB Trust fund in excess of ARC	-	-	-	-	-	(376,176)	-	-	-	-
Total other financing sources (uses)	150,000	7,741,427	873,847	(1,680,606)	2,404,041	5,135,348	3,241,319	6,889,827	6,784,615	30,407,498
Net change in fund balances	\$ (2,616,414)	\$ 13,787,696	\$ 4,066,457	\$ (5,245,289)	\$ (6,257,062)	\$ (1,282,345)	\$ (2,442,585)	\$ (3,648,119)	\$ (14,282,816)	\$ 21,018,190
Debt service as a percentage of noncapital expenditures:	6.38%	6.72%	8.39%	8.15%	8.29%	8.08%	8.63%	9.17%	7.88%	6.95%

Notes:

Beginning in 2011, administrative costs charged to the Water Fund and Sewer Fund are classified as reduction in expenditures. In prior years, they were classified as revenues.

TABLE 5

CITY OF FALLS CHURCH, VIRGINIA

ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Real Property (1)		Personal Property (2)		Total Taxable Assessed Value	Total Direct Tax Rate(3)	Actual Taxable Value(4)	Value as a Percentage of Assessed Value
	Residential Property	Commercial Property	Motor Vehicles	Other				
2013	\$ 2,564,206,400	\$ 735,795,454	\$ 104,900,347	\$ 32,764,812	\$ 3,437,667,013	\$ 1.43	\$ 3,437,667,013	100.00%
2012	2,475,618,900	712,880,090	99,424,184	29,155,268	3,317,078,442	1.41	3,317,078,442	100.00
2011	2,394,344,500	699,546,159	95,126,548	28,060,359	3,217,077,566	1.39	3,217,077,566	100.00
2010	2,322,521,050	748,726,900	90,559,076	29,022,854	3,190,829,880	1.29	3,190,829,880	100.00
2009	2,370,165,500	859,139,200	89,133,212	29,936,779	3,348,374,691	1.18	3,348,374,691	100.00
2008	2,450,402,450	896,737,950	84,474,526	35,890,466	3,467,505,392	1.15	3,467,505,392	100.00
2007	2,416,612,400	843,540,824	92,006,545	32,870,681	3,385,030,450	1.15	3,385,030,450	100.00
2006	2,237,877,000	695,254,574	98,754,264	28,887,704	3,060,773,542	1.17	3,060,773,542	100.00
2005	1,919,327,908	597,294,900	96,525,026	27,654,180	2,640,802,014	1.23	2,640,802,014	100.00
2004	1,567,336,942	531,362,520	107,947,427	29,484,619	2,236,131,508	1.31	2,236,131,508	100.00

(1) Source: Falls Church Office of Real Estate Assessment. Amounts are reported net of exempt property.

(2) Source: Falls Church Treasurer's office. Amounts are reported net of exempt property.

(3) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.

(4) Virginia code requires assessment at full market value.

CITY OF FALLS CHURCH, VIRGINIA

DIRECT PROPERTY TAX RATES

Last Ten Fiscal Years

(unaudited)

<u>Year</u>	<u>Real Property (1st half of the Fiscal Year)</u>	<u>Real Property (2nd Half of the Fiscal Year)</u>	<u>Personal Property</u>	<u>Total Direct Rate (1)</u>
2013	\$ 1.270	\$ 1.305	\$ 4.84	\$ 1.43
2012	1.270	1.270	4.84	1.41
2011	1.240	1.270	4.71	1.39
2010	1.070	1.240	4.71	1.29
2009	1.030	1.070	4.71	1.18
2008	1.010	1.030	4.71	1.15
2007	1.010	1.010	4.71	1.15
2006	1.030	1.010	4.71	1.17
2005	1.080	1.030	4.71	1.23
2004	1.130	1.080	4.71	1.31

Note: Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.

TABLE 7

CITY OF FALLS CHURCH VIRGINIA

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

(unaudited)

Taxpayer	2013			2004		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
TMW Pearson Square LLC	\$ 77,088,200	1	2.32 %	\$ -		- %
Falls Church Country Club (Apartments)	69,432,300	2	2.09	46,500,000	1	2.56
Eden Center, Inc.	51,217,100	3	1.54	35,000,000	2	1.92
BJ's GL I, LLC & II, LLC	30,175,000	4	0.91	9,201,200	9	0.51
James E. Koons	24,796,800	5	0.75	15,445,800	5	0.85
West Falls Parcel, Inc	23,783,400	6	0.72	15,450,000	4	0.85
Federal Realty Investment Trust	22,752,900	7	0.68	15,160,000	7	0.83
Kahn B Franklin et al	22,544,900	8	0.68	16,860,000	3	0.93
Aimco Merrill House, LLC	22,015,600	9	0.66	13,700,000	8	0.75
Kaiser Foundation Health Plan, Inc.	18,571,300	10	0.56	15,426,100	6	0.85
Zager, Daniel	-		-	8,800,000	10	0.48
Totals	<u>\$ 362,377,500</u>		<u>10.91 %</u>	<u>\$ 191,543,100</u>		<u>10.53 %</u>

TABLE 8

CITY OF FALLS CHURCH, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Calendar Years
(unaudited)

Year Ended June 30	Taxes Levied for the Year	Collected within the Year of the Levy		Collections in Subsequent Years*	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2013	\$ 46,542,007	\$ 45,686,242	98.16 %	\$ -	\$ 45,686,242	98.16 %
2012	44,301,367	43,620,632	98.46	454,900	44,075,532	99.49
2011	42,207,433	41,495,508	98.31	542,537	42,038,045	99.60
2010	39,477,656	38,778,261	98.23	587,122	39,365,383	99.72
2009	37,850,131	37,062,585	97.92	693,575	37,756,160	99.75
2008	37,149,427	36,183,444	97.40	896,104	37,079,548	99.81
2007	35,866,351	34,449,695	96.05	1,379,198	35,828,893	99.90
2006	32,599,324	31,271,297	95.93	1,293,702	32,564,999	99.89
2005	28,698,695	27,539,424	95.96	1,151,320	28,690,744	99.97
2004	25,481,941	23,705,292	93.03	1,772,384	25,477,676	99.98

Notes: Property tax levies and collections include real estate taxes and personal property taxes, and excludes Commonwealth of Virginia Personal Property Tax Relief Act (PPTRA) reimbursement.

TABLE 9

CITY OF FALLS CHURCH, VIRGINIA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita
	General Obligation Bonds	Lease Revenue Note Payable	Capital Leases	General Obligation Bonds	Note Payable*	Revenue Bonds			
2013	\$ 34,484,600	\$ -	\$ -	\$ 23,043,537	\$ 6,435,016	\$2,404,160	\$66,367,313	N/A %	\$ 5,121
2012	37,640,183	-	-	23,902,864	6,979,830	2,482,949	71,005,826	N/A	5,479
2011	32,039,513	-	-	25,298,037	7,842,215	2,712,398	67,892,163	0.09	5,402
2010	35,681,948	-	9,338	19,819,925	8,892,713	2,859,769	67,263,693	0.09	5,454
2009	39,309,481	-	32,932	14,085,814	10,325,018	3,002,816	66,756,061	0.07	4,432
2008	42,827,780	217,500	73,810	12,820,000	-	2,432,409	58,371,499	0.08	5,013
2007	43,644,216	435,000	152,147	5,050,000	-	6,759	49,288,122	0.07	4,334
2006	46,160,418	652,500	317,326	-	-	6,894	47,137,138	0.07	4,245
2005	47,171,034	852,500	450,942	-	-	7,000	48,481,476	0.07	4,386
2004	47,950,000	-	597,519	-	-	-	48,547,519	0.08	4,533

(1) Based on personal income for Fairfax, Fairfax City and Falls Church shown on Table 12

N/A There is no census data available for personal income.

* The City restated net position as of June 30, 2009, 2010, and 2013. The restatements are not included in the prior data.

TABLE 10

CITY OF FALLS CHURCH, VIRGINIA

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(unaudited)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2013	\$ 57,528,137	\$ -	\$ 57,528,137	1.67 %	\$ 4,439
2012	61,543,047	-	61,543,047	1.86	4,749
2011	57,337,550	-	57,337,550	1.78	4,563
2010	55,501,873	-	55,501,873	1.74	4,501
2009	53,395,295	-	53,395,295	1.59	4,430
2008	55,647,780	-	55,647,780	1.60	4,779
2007	43,644,216	-	43,644,216	1.29	3,838
2006	46,160,418	-	46,160,418	1.51	4,157
2005	47,171,034	-	47,171,034	1.79	4,267
2004	47,950,000	-	47,950,000	2.14	4,478

CITY OF FALLS CHURCH VIRGINIA

TABLE 11

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Debt limit	\$ 334,774,418	\$ 325,124,867	\$ 312,665,676	\$ 328,521,957	\$ 333,108,780	\$ 359,008,750	\$ 356,527,840	\$ 339,609,980	\$ 271,054,630	\$ 232,021,812
Total net debt applicable to limit	63,963,154	68,522,877	65,179,765	64,403,924	63,753,245	55,939,090	49,281,363	47,130,244	48,474,476	48,547,519
Legal debt margin	<u>\$ 270,811,264</u>	<u>\$ 256,601,990</u>	<u>\$ 247,485,911</u>	<u>\$ 264,118,033</u>	<u>\$ 269,355,535</u>	<u>\$ 303,069,660</u>	<u>\$ 307,246,477</u>	<u>\$ 292,479,736</u>	<u>\$ 222,580,154</u>	<u>\$ 183,474,293</u>
Total net debt applicable to the limit as a percentage of debt limit	19.11%	21.08%	20.85%	19.60%	19.14%	15.58%	13.82%	13.88%	17.88%	20.92%

Legal Debt Margin Calculation for Fiscal Year 2013

Assessed value	<u>\$ 3,347,744,175</u>
Debt limit (10% of assessed value)	\$ 334,774,418
Less debt applicable to limit:	
General obligation bonds	57,528,137
Notes payable	<u>6,435,016</u>
Legal debt margin	<u>\$ 270,811,265</u>

CITY OF FALLS CHURCH, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Calendar Years
(unaudited)

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	School Enrollment(4)	Unemployment Rate (5)
2013	12,960	\$ N/A	\$ N/A	2,234	6.40 %
2012	12,960	N/A	N/A	2,122	6.70
2011	12,567	78,392,046	69,008	2,069	7.70
2010	12,332	75,161,493	67,045	2,010	6.30
2009	12,054	71,954,372	65,452	1,941	7.30
2008	11,645	75,302,775	69,886	1,905	4.10
2007	11,373	73,256,103	69,086	1,870	3.00
2006	11,104	69,554,932	66,165	1,845	3.00
2005	11,054	65,598,555	62,404	1,848	3.40
2004	10,709	60,930,780	58,436	1,846	3.40

Sources:

- (1) Source: For 2001-2009 and 2011 Weldon Cooper Center for Public Service; numbers are estimates as of July 1, 2012 uses the same data as 2001. Year 2010 is based on U.S. Census estimate as of April 1, 2010.
- (2)Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church.
- (3)Source: US Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church.
- (4) Source: City of Falls Church Public School Board. These numbers do not include pre-kindergarten
- (5) Source: Virginia Employment Commission

TABLE 13

CITY OF FALLS CHURCH, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Five Years Ago
(unaudited)

Employer	2013			2006		
	Employees(1)	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	559	1	7.62 %	375	1	5.92 %
Falls Church City Government	337	2	4.59	261	3	4.12
Kaiser Permanente	265	3	3.61	375	2	5.92
Koon's Ford & Nissan	204	4	2.78	196	4	3.10
BG Healthcare Services	202	5	2.75			
Tax Analysts	182	6	2.48	150	5	2.37
VL Home Health Care, Inc	160	7	2.18			
Giant Food Store	130	8	1.77	67	9	1.06
Care Options	127	9	1.73			
BJ's Wholesale Club	125	10	1.70			
Don Beyer Volvo				104	6	1.64
United States Postal Service				97	7	1.53
Knowlogy				85	8	1.34
Center for Multicultural Human Services				58	10	0.92
Total	2,291		31.21 %	1,768		27.92 %

Source: Finance and Economic Development Office

Total employment estimate of 7,339 for 2013 and 6,331 for 2006 from Virginia Employment Commission. 2006 is the first year employment data was available.

TABLE 14

CITY OF FALLS CHURCH, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<u>Function/Program</u>										
General government	37.90	35.55	35.92	37.88	38.87	38.25	37.75	37.75	34.75	34.75
Judicial administration	13.76	12.76	13.26	13.26	17.01	17.01	17.01	11.60	12.60	13.10
Public safety	51.20	51.20	52.20	55.20	53.60	53.35	51.60	58.40	57.00	57.40
Public works	28.94	28.60	28.00	35.75	34.08	32.58	31.58	28.96	28.41	28.41
Health and Welfare	5.00	5.00	5.90	7.85	8.85	8.85	9.75	8.00	9.09	9.09
Parks, recreation, and cultural	29.95	30.05	31.55	33.35	36.35	36.35	34.48	44.69	42.09	43.97
Community development	15.81	13.81	13.81	13.81	13.81	13.75	13.75	12.75	12.75	9.75
Economic development	2.00	2.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Water	57.60	57.85	56.98	53.65	52.27	52.32	52.32	52.04	52.04	53.34
Sewer	4.30	4.30	4.10	4.10	4.15	4.10	4.10	4.10	4.05	3.75
Total	246.46	241.12	243.72	257.85	261.99	259.56	255.34	261.29	255.78	256.56

Source: City Adopted Budget

TABLE 15

CITY OF FALLS CHURCH, VIRGINIA										
OPERATING INDICATORS BY FUNCTION/PROGRAM										
Last Ten Fiscal Years										
(unaudited)										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Function/Program										
General Government										
Communications										
Number of Media Releases	N/A	167	118	95	90	94	109	94	122	78
Number of Periodical Publications	N/A	2	N/A	N/A	10	10	10	9	6	4
eFOCUS Newsletter Subscribers	N/A	1,388	N/A	N/A	1,267	1,454	1,580	1,628	N/A	N/A
Judicial Administration										
Court Services										
Aurora House Recidivism	0%	0%	8%	0%	29%	16%	25%	10%	14%	0%
Aura House Program Completion	98%	83%	92%	73%	78%	83%	50%	62%	90%	88%
Court Services Juvenile Recidivism	9%	10%	16%	16%	22%	9%	13%	14%	8%	4%
Court Services Adult Recidivism	6%	6%	23%	23%	33%	15%	20%	22%	7%	15%
Public safety										
Police										
Part I Crimes (1)	309	270	268	329	441	384	365	370	370	428
Calls for Service	27,411	26,189	26,485	25,862	28,319	26,467	23,407	25,171	25,347	22,317
Accidents	180	188	224	235	231	231	255	257	278	282
Traffic Enforcement	5,314	5,704	8,614	8,113	8,950	7,042	5,052	5,281	5,243	5,739
DWI Arrests	106	127	95	91	70	63	54	49	53	40
Inspections										
Plan Review	N/A	666	N/A	671	442	577	552	490	490	371
Stop Work Orders	N/A	10	N/A	8	8	16	11	21	21	19
Public works										
Refuse collected (tons)	2,073	2,015	2,150	2,178	2,415	2,704	2,711	2,845	2,799	2,981
Recycling collected (tons)	3,364	3,241	3,315	3,077	3,690	4,544	3,618	2,728	3,261	3,257
Street Resurfacing (miles)	2	-	1	2	2	2	2	2	2	1
Health and Welfare										
Housing and Human Services										
Information/Referral Contacts	2,136	2,459	3,149	2,971	2,882	2,555	2,674	1,786	2,375	2,287
Education										
Student Membership	2,234	2,122	2,069	2,010	1,941	1,906	1,873	1,845	1,848	1,846
Parks, Recreational and Cultural										
Parks & Recreation										
Special Events	174	171	181	160	164	132	130	133	127	135
Class participants	4,065	3,072	2,663	2,654	2,307	2,140	2,765	2,920	2,750	2,625
Room Reservations	6,237	6,455	6,569	5,982	6,205	6,548	6,150	6,132	6,027	6,280
Tennis Reservations	642	922	1,422	1,760	1,723	1,570	1,460	1,226	1,150	890
Youth Sports Participants	2,509	2,423	1,987	2,542	2,431	2,207	2,358	1,932	1,839	1,706
Adult Sports Teams	114	111	114	99	100	102	117	108	61	76
Teen Dance Participants	750	827	777	979	1,260	1,875	2,152	1,799	1,699	1,701
Teen Center Attendance	1,500	1,722	3,500	3,675	4,000	4,250	4,976	4,851	4,428	2,000
Summer Camps Offered	274	224	244	223	201	196	186	224	196	168
Summer Camp Participants	5,432	5,000	5,002	4,163	4,258	4,211	4,073	3,769	3,562	3,289
Senior Center lunch meals served	521	519	928	1,255	1,588	1,824	1,760	2,360	3,028	2,789

TABLE 15
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Library:										
Size of collection (all formats)	147,659	146,422	142,728	143,365	159,631	154,175	150,709	130,472	127,236	123,127
Total circulation of all materials	446,563	442,480	426,272	452,498	429,286	365,861	346,637	341,626	335,912	318,775
Total visits to library (door count)	297,468	307,466	283,773	232,379	219,831	203,743	2,002,002	192,222	212,322	222,999
Number of registered borrowers	25,914	24,056	28,395	25,263	23,357	25,155	25,470	23,003	22,428	21,503
Number of website visits/yr	226,961	137,342	154,284	182,373	166,258	135,579	141,932	164,839	154,570	126,771
Number of programs/yr	554	518	603	298	345	297	312	357	351	295
Attendance at programs	17,370	15,761	20,345	11,710	14,235	12,773	11,321	11,998	10,976	10,691
Community development:										
Planning										
Development Inquiries	N/A	20,353	8,927	8,927	9,905	6,400	6,200	6,000	N/A	N/A
Plans Reviewed	N/A	2	26	26	34	52	49	20	N/A	N/A
Code/Policy Review	N/A	N/A	N/A	N/A	72	35	18	25	N/A	N/A
Zoning										
Development Inquiries	N/A	N/A	2,100	2,100	2,570	2,000	2,200	1,500	N/A	N/A
Permits/Plans Reviewed	N/A	708	600	600	660	1,700	2,100	2,000	N/A	N/A
Urban Forestry										
Development Inquiries	N/A	N/A	N/A	N/A	1,400	2,400	1,200	1,300	N/A	N/A
Permits/Plans Reviewed	N/A	N/A	N/A	N/A	192	443	75	56	N/A	N/A
Trees Planted/removed/pruned	N/A	N/A	N/A	N/A	825	859	897	369	N/A	N/A
Water										
New connection applications	74	218	265	23	53	60	90	374	90	216
Water main breaks	165	93	148	118	141	112	172	100	102	102

Sources:

Reported by individual departments

Notes:

N/A- Not available

(1) Part I crimes are defined as murder, rape, robbery, aggravated assault, burglary, grand larceny, auto theft, arson.

Library - Librarian

Building permits - City Planner

TABLE 16

CITY OF FALLS CHURCH, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

(unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Function/Program										
General Government										
City Hall	1	1	1	1	1	1	1	1	1	1
Judicial Administration (1)										
Court Services										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	2	1	1	1	1	1	1	1	1	1
Court Services Passenger Van	1	1	1	1	1	1	1	1	N/A	N/A
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets-Miles/Lane Miles	32	32	32	32	32	32	32	32	32	32
Traffic signals	29	29	29	29	29	34	34	30	30	30
Streetlights	142	142	142	142	142	136	136	136	124	124
Refuse Trucks	-	-	5	5	5	5	5	4	4	4
Education										
School Buildings	4	4	4	4	4	4	4	4	3	3
Parks, Recreational and Cultural										
Recreation & Parks:										
Community Center	1	1	1	1	1	1	1	1	1	1
Gage House/Senior Center	1	1	1	1	1	1	1	1	1	1
Cherry Hill Farmhouse & Barn	1	1	1	1	1	1	1	1	1	1
Neighborhood Parks	13	13	13	13	13	13	13	12	11	11
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	5	5	5	5	5	5	5	5	5	5
Vehicles	7	7	6	6	6	6	6	5	3	3
Library:										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	3	3	3	3	3	3	3	2	2	2
Water										
Water Mains (Miles)	502	500	497	497	497	497	496	491	489	489
Tanks	10	10	10	10	10	10	10	10	10	10
Pumps	29	29	29	29	29	29	28	28	28	28
Fire Hydrants	3,286	3,253	3,220	3,201	3,201	3,188	3,169	3,132	3,097	3,017
Sewer										
Sanitary Sewer Mains (Miles)	44	44	44	44	43	43	43	N/A	43	N/A
Sanitary Sewer Manholes	1,190	1,186	1,186	1,175	1,001	1,001	1,001	N/A	998	N/A

Notes

NA-Not Available

(1) The City Hall Serves as the City Court House

(2) The police station is located in City Hall

(3) Fire Services are provided by Arlington County under contract

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COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of City Council
City of Falls Church, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-1 to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and identified in the Schedule of Findings and Questioned Costs as Item 13-01.**

City of Falls Church's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 4, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Honorable Members of City Council
City of Falls Church, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Falls Church, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures did not disclose instances of noncompliance, required to be reported in accordance with OMB Circular A-133.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 4, 2013

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2013

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Comprehensive Services Act
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls

State Agency Requirements

Education
Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter
City Code
Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
Highway Planning and Construction	20.205
Economic Development Initiative Grant	14.251

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was **not** determined to be a low-risk auditee.

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: SEGREGATION OF DUTIES (Significant Deficiency)

Condition:

One of the more important aspects of any internal control structure is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed. We noted segregation of duties issues related to cash receipts, write-off of receivables, and payroll at the City, and accounts payable, payroll, and journal entries at the School Board.

Recommendation:

We recommended that proper segregation of duties be implemented wherever possible.

Management's Response:

The auditee concurs with this recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

13-01: BUDGET COMPLIANCE

Condition:

The City spent \$13,476 and \$55,612 more on Commissioner of the Revenue and Sheriff departments, respectively than budgeted. It is a violation of the *Code of Virginia* to expend funds in excess of appropriations.

Recommendation:

We recommend that the City review budget to actual reports by department on a monthly basis and amend the budgets when necessary.

Management's Response:

The auditee concurs with this recommendation.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Cluster Expenditures	Federal Expenditures
U.S. Department of Agriculture			
Pass-through payments:			
Commonwealth of Virginia Department of Agriculture and Consumer Services			
National School Lunch Program	10.555	\$ 128,610	
School Breakfast Program	10.553	10,127	
Subtotal for Cluster			\$ 138,737
Total U.S. Department of Agriculture			138,737
U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
High Intensity Drug Trafficking Area	97.000		9,448
Total U.S. Department of Homeland Security			9,448
U.S. Environmental Protection Agency			
Direct payments:			
Congressionally Mandated Projects	66.202		34,225
Total U.S. Environmental Protection Agency			34,225
U.S. Department of Housing and Urban Development			
Direct payments:			
Economic Development Initiative - Congressionally Earmarked	14.251		161,760
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants	14.218		51,594
Home Investments Partnership Program	14.239		42,212
Total U.S. Department of Housing and Urban Development			255,566
U.S. Department of Justice			
Direct payments:			
Seized assets	16.000		20,890
Pass-through payments:			
County of Loudoun			
Congressionally Recommended Awards	16.753		24,654
Total U.S. Department of Justice			45,544
U.S. Department of Transportation			
Pass-through payments:			
Commonwealth Virginia Department of Transportation			
Highway Planning and Construction	20.205		238,484
State and Community Highway Safety	20.600		5,351
Northern Virginia Transportation Commission			
Federal Transit Capital Investment Grants	20.500		29,747
Total U.S. Department of Transportation			273,582
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Special Education - Grants to States	84.027	407,527	
Special Education - Preschool Grants	84.173	10,357	
Subtotal for Cluster			417,884
Title I - Grants to Local Educational Agencies	84.010		28,440
English Language Acquisition Grants	84.365		21,551
Improving Teacher Quality State Grants	84.367		38,908
Vocational Education - Basic Grants to States	84.048		11,978
Total U.S. Department of Education			518,761
Total Expenditures of Federal Awards			\$ 1,275,863

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

I. Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

II. Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$34,238 from the National School Lunch Program.